AUDITOR
GENERAL
Alberta

Annual Report of the Auditor General of Alberta

2002–2003

25th Edition

ISSN 1703–7166

AUDITOR
GENERAL
Alberta

Ms. Janis Tarchuk, MLA
Chair
Standing Committee on Legislative Offices

I am honoured to send my *2002–2003 Annual Report* to the members of the Legislative Assembly, as required by section 19(5) of the *Auditor General Act*.

This is my second annual report to the Legislative Assembly and the twenty-fifth such report issued by the Auditor General of Alberta.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
October 3, 2003

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Introduction

Introduction

1. Progress with past recommendations

We regularly ask ourselves—Is the government listening? Is the government making satisfactory progress in implementing our recommendations? The answer today is—Yes.

Over the last year, the government has responded to our recommendations with renewed vigour. The number of recommendations we are repeating because of insufficient progress has decreased from 23 to 13. Of these 13 repeated recommendations, only 3 (Nos. 2, 21, 40) are for issues more than 3 years old. Last year, we had 10 repeated recommendations for issues more than 3 years old. We use three years as a reasonable period during which to see satisfactory progress towards full implementation of our recommendations. Although the number of issues more than three years old is not declining, there is improved progress for a much greater proportion.

To illustrate how the government has placed greater priority on dealing with recommendations, here are five of last year's 15 key recommendations that have been implemented this year:

Cross-Ministry	The government has established an internal audit function.
Cross-Ministry	The government has developed standards for preparing ministry business plans.
AGLC	Alberta Gaming and Liquor Commission has developed a formal risk management process.
Infrastructure	The Ministry has strengthened its contract management processes.
Municipal Affairs	The Ministry has created a new operations centre for emergency management.

Of the remaining 10 key recommendations last year, progress is satisfactory with five, and we repeat five this year.

2. Key recommendations this year

The following are 14 key recommendations. We believe their implementation will significantly improve the use of public resources and the government's performance reporting. In serial order, they are numbered: 1, 2, 6, 16, 19, 20, 21, 23, 26, 28, 30, 32, 34 and 35. The repeated recommendations are: 2, 16, 21, 34 and 35.

Governance of audit committees

Agencies, Boards, and Commissions (ABCs) govern over 100 organizations in the Alberta public sector. In Recommendation No. 1 (see page 25), we recommend that the Deputy Minister of Executive Council, working through other Deputy Ministers, take steps to improve audit committee practices in the Alberta Public Sector.

Currently, audit committees of ABCs work in relative isolation of each other. The government has not provided common direction to audit committees on expected performance standards. All audit committees and management of ABCs are concerned about effective governance, but the skill sets and capabilities of audit committee members are highly inconsistent. There is a high degree of confusion about what governance practices from the private sector are appropriate for public sector ABCs and a general consensus that there is a lack of communication of good practices for public sector audit committees.

The fundamental challenge facing the various ministries and audit committee members is to ensure that, where needed, improvement in practices occurs. This will require leadership from senior government officials and the most skilled and experienced individuals on audit committees.

Accounting policies

We have repeated our Recommendation No. 2 (see page 40) that the Department of Finance change corporate government accounting policies to improve accountability. There are two significant issues not yet resolved.

Since 1997, we have reported that universities, public colleges, technical institutes, regional health authorities and school boards have been inappropriately excluded from the reporting entity. The government said in its response to the *Financial Management Commission Report* that it will consider the consolidation of these entities by ministries in *Budget 2006*. The Department has indicated to us that it will prepare a work plan to progress this issue in the next year.

The financial statements of 17 ministries understate capital assets because the government requires ministries to follow a corporate government accounting policy that requires them to expense any capital asset—with a cost less than $15,000 and a useful life more than one year—in the year the ministry acquires the capital asset. We estimate there is an understatement of the capital assets of the government and ministries of at least $120 million as at March 31, 2003. The government has proposed a new accounting policy to solve the matter, and we expect a resolution by March 2004.

First Nation Agency Accountability

The Ministry of Children's Services is responsible for maintaining standards over the delivery of child welfare services to children and families in Alberta, including delivery by 18 Delegated First Nation Agencies. We, therefore, expected to find that the Department maintained standards by monitoring the services that the Agencies provide.

We have recommended that the Department of Children's Services improve its monitoring of services provided by the Delegated First Nation Agencies (Recommendation No. 6, page 66).

There is a risk of non-compliance with standards since the Department's reviews are not comprehensive enough.

Risk management

A predominant theme in last year's report—that good risk analysis is necessary for cost-effective internal control—continues this year. Alberta Treasury Branches has not made satisfactory progress with implementing an enterprise risk management framework to help in managing significant risks. In Recommendation No. 16 (see page 121), we again encourage management to take a more proactive approach to formalizing a risk management framework. Without such a framework, the risk of financial losses increases.

Registry Renewal Initiative

The Registry Renewal Initiative is a project to renew the systems for the land titles, motor vehicle and personal property registries to ensure that they are capable of meeting the future growth in demand. The project will cost approximately $100 million and the Department of Government Services expects the project to take place over eight years.

In Recommendation No. 19 (see page 140), we recommend that the Department complete and approve a project management plan for the Registry Renewal Initiative.

Due to the size and complexity of the Initiative, it is critical that planning is completed. Systems must be established to deal with all significant risks before extensive work is carried out. Without established project management processes that are understood by all participants, significant cost overruns, time delays and missed project objectives could result.

Alberta Corporate Service Centre—performance measures

We expect that performance measures and targets should be clearly defined and linked to the core businesses and goals of an organization. Unreliable performance information can lead to poor management decisions.

The Alberta Corporate Service Centre has not made satisfactory progress in improving its performance measurement systems so we again recommend that the Centre clearly define its performance measures and improve its processes to track and report results (Recommendation No. 20, page 143).

The methodology for the cost savings measure was not clearly defined and used in the determination of results. Also, the Centre did not report the results for two measures:

- *percentage of business processes reviewed and re-engineered*—not reported because it was difficult to clearly define the measure and determine results
- *percentage of performance targets in service level agreements that are met*—not reported because targets in the agreements are not clearly defined and there are no processes to track results

Performance agreements

This is the fifth year that we have recommended the Department of Health and Wellness ensure performance agreements with regional health authorities are in place at the start of the period they apply to (Recommendation No. 21, page 151).

Performance agreements were not signed when we finalized this *Annual Report*, even though they are to cover the three-year period starting April 1, 2003. If performance expectations have not been agreed to at the start of a period, accountability cannot work properly.

Health—Province Wide Services

Province Wide Services (PWS) are highly specialized, complex, high cost services that are provided mainly in Edmonton and Calgary (for example, heart and transplant surgeries).

We have called on the Department of Health and Wellness and the Province Wide Services Working Group to clarify the mandate of the Working Group and improve processes to achieve that mandate (Recommendation No. 23, see page 154).

In our opinion, the mandate is not sufficiently specific to ensure that the benefits that can be obtained from an effective Working Group will be fully realized. Our findings for two associated recommendations (see pages 156 and 157) illustrate the results of lack of clarity in the mandate. Further, the Working Group should be reviewing current and proposed PWS services to prioritize them within the context of funding principles and budget constraints. There is evidence that this process is not happening.

Infrastructure construction grants

We have recommended that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants (Recommendation No. 26, see page 181).

In 2002–2003, the Ministry provided $109 million in construction grants to school jurisdictions, regional health authorities and post secondary institutions. We found that accountability provisions are needed for school jurisdiction funding, an approval process for all regional health authorities is required, and conditions are not prescribed for post secondary institutions.

The Ministry may not receive full value for money spent on its capital projects since inadequate agreements reduce accountability. Grant recipients may not be complying with the Ministry's standards and requirements.

Physical security of government buildings

The government owns, rents or leases approximately 2,300 buildings including the legislative buildings, ministry office buildings, cultural facilities, housing units, educational institutions, data processing centres, health and research centres, and storage facilities for everything from confidential electronic and hard copy information to machinery and supplies.

We found that there is no overall program to assess and coordinate security. We assessed the physical security of seven significant government buildings in various Alberta communities and identified security weaknesses. Generally speaking, site facility managers respond to security issues only when a concern is raised. Security was most often not a high priority and formal security/risk assessments were the exception rather than the rule. There was no evidence of any formal reporting procedure or strategic planning for security issues at the Ministry level.

Since inadequate security puts people and property at risk, in Recommendation No. 28 (see page 187), we recommend that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them.

Innovation and Science—systems development methodology

Without an approved set of systems development criteria, ministries may develop flawed systems. In some cases, the systems may even pose a security risk. The government will have unnecessary administrative overhead from using poorly designed and inadequately tested systems, and will incur additional costs in the future to fix the systems on an ad hoc basis.

We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, implement a systems development methodology (Recommendation No. 30, see page 205).

Progress with implementing the recommendation is not satisfactory. In the previous year, we identified a redeveloped system with deficiencies that would have been identified and corrected with an appropriate development methodology. This year, we identified other deficiencies in the development of a Contract Management Administration System. The use of an appropriate system development methodology would likely have prevented many of the problems that occurred.

Tuition fee policy and its related programs

One of the principles of the tuition fee policy is that financial need should not be a barrier to participation in post-secondary education by qualified and motivated students. The student loan and scholarships programs, along with the grants that the Department of Learning provides to post-secondary institutions, contribute to the goal.

The Department has studied the participation in post-secondary education by high school graduates. However, since the study was completed, significantly higher tuition fees increases have been announced for certain post-secondary programs.

To measure the effectiveness of its programs, the Department should determine the income level at which financial need is a barrier. It should measure participation rates for students eligible for colleges or technical institutions. Also the Department needs to determine the impact of changes in tuition fees on participation rates. We have, therefore, recommended that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students (Recommendation No. 32, see page 224).

Internal control

We made the point last year that waiting for errors to signal weaknesses in controls is not an effective way to identify risks, achieve reliable performance reporting or safeguard assets. Management must preventively control the risk of unauthorized transactions, taking into account the cost of the controls. Without sound, functioning internal control systems, managers and the governing body do not have the necessary assurance on the effectiveness and efficiency of an organization's operations, the relevance and reliability of internal and external reporting, and compliance with the law.

We highlight two cases with inadequate internal controls of particular concern. We have had to repeat recommendations to both the Universities of Alberta and Calgary.

In Recommendation No. 34 (see page 235), we again call on the University of Alberta to improve its internal control. The University has not made satisfactory progress. A comprehensive, organization-wide system of effective internal controls does not yet exist, and the University continues to be exposed to considerable risk.

In Recommendation No. 35 (see page 238), we again call on the University of Calgary to improve its internal control. The University needs to establish adequate control until the systems and the administrative structure changes, targeted for completion in 2006–2007, are accomplished by management.

3. Overview of the report

3.1 Guidance to readers

This *Annual Report* explains:

1. what the Alberta government must do to improve its systems, and
2. the results of our audits of government and ministry financial statements.

Structure of the report

For each ministry, the *Annual Report* has a chapter describing our findings. The report also includes a Cross-Ministry chapter that applies to several ministries and the whole government, and a chapter on the Government of Alberta Annual Report. If we have recommendations for a ministry, its chapter has four sections:

- **Summary** highlights what a ministry must do to improve its systems.
- **Overview** briefly describes a ministry and its agencies, boards, and commissions.
- **Scope** explains the extent of our work in a ministry—auditing its financial statements and usually, examining some of its systems.
- **Findings and recommendations** describes problems we found and solutions we recommend. We number the most important recommendations and require a response on them from the government.

If we have no recommendations for a ministry, the chapter is condensed. Our report also includes a glossary, an index, a list of this year's recommendations, and a table of issues more than three years old.

Report subsections

In the **Findings and recommendations** section of each ministry, we use a separate subsection for each issue. If we have a recommendation on an issue, the subsection normally has the following five headings:

- **Recommendation**
- **Background**
- **Criteria**
- **Findings**
- **Implications and risks**

If a subsection is short, we may combine some of the headings.

In doing a systems audit, we start with the criteria (the standards) that a system should meet. Then we do our examination of what happens in practice. Next, we match our findings to the criteria. If the findings match all the criteria, we conclude the system is operating properly. But if the findings don't match all the criteria, we recommend what a ministry (or department or entity) must do to ensure the system meets all the criteria.

For example, if we have 5 criteria a system should meet and we find that it meets 3 of them, the 2 unmet criteria generate the recommendation.

Lastly, we report our criteria, findings and recommendations in the subsections with those headings. As well, we use the other two headings as follows:

- In **Background**, we give the history and context for the issue.
- In **Implications and risks**, we explain what may happen if the ministry doesn't implement the recommendation.

Follow up of previous recommendations

We follow up all our previous unimplemented recommendations. If the recommendation was numbered, we report its status in the **Findings and recommendations** section, as follows:

- **Implemented**—we give brief details of how the government implemented it.
- **Satisfactory progress**—we describe the progress and what remains to implement the recommendation.
- **Unsatisfactory progress**—we say why progress is unsatisfactory and repeat the recommendation.

3.2 Compliance with the law

We are satisfied that the transactions and activities we examined in financial statement audits complied with relevant legislative requirements, apart from the instances of non-compliance described in this report. As auditors, we only test some transactions and activities, so we caution readers that it would be inappropriate to conclude that our testing would identify all transactions and activities that do not comply with the law.

3.3 Recommendation statistics and analysis

To decide whether something is significant enough to bring to the attention of Public Accounts Committee members, ministers, other MLAs, the public, and management, we consider how important it is to the ministry and the whole government.

This *Annual Report* contains 77 recommendations. Of these, we have numbered the 41 recommendations that we consider need a formal response from government. Of the 41 numbered recommendations, 28 are new. The other 13 repeat previous recommendations with unsatisfactory progress. By repeating these recommendations, we are asking the government to formally recommit to their implementation.

Issues more than three years old are reported at page 299. Since the benefit of audit work is not in the recommendations, but in their effective implementation, we always follow up until they have been implemented. We now have 19 issues reported before 2000 that have not been fully implemented; however, progress is satisfactory for 16 of the issues. Progress is not satisfactory for three issues so we have repeated those recommendations. They are Recommendation Nos. 2, 21 and 40.

4. Acknowledgements

25th edition

This is the 25th edition of the Annual Report of the Auditor General of Alberta. I believe our work makes a difference to Albertans by helping government managers mitigate risks and achieve their goals effectively.

MLA feedback on our reporting

This spring, I asked members of the Standing Committee on Public Accounts how my Office could improve the reporting of our work. I am grateful for their valuable feedback—the structure and content of this report reflect their suggestions.

Cooperation of those we audit appreciated

We appreciate the cooperation of those we audit and recognize it is crucial to our success. Legislators, as well as senior management and board members of audited organizations, continue to make time to meet with us and discuss our audit plans and findings. In doing our work, we received the necessary information, reports, and explanations to our questions.

Thanks to staff and agent firms

I am pleased with the professionalism of my staff. They—and the agent firms we work with—are dedicated to independent and cost-effective auditing for the Legislative Assembly and the people of Alberta. I thank them for their commitment, talent, and hard work.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General

Edmonton, Alberta
September 22, 2003

Audits and recommendations

Cross-Ministry

Page 25

Governance of audit committees—Recommendation No. 1
We recommend that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector.

Page 27

Consistency of performance measures in government and ministry business plans
We recommend that the Deputy Minister of Finance, working with other deputy ministers, ensure that government and ministry business plans use consistent performance measure targets.

Government of Alberta Annual Report

Page 40

Corporate government accounting policies—Recommendation No. 2
We again recommend the Department of Finance change corporate government accounting policies to improve accountability (2002—No. 15).

Agriculture, Food and Rural Development

Page 49

Performance measurement—Recommendation No. 3
We recommend that the Ministry of Agriculture, Food and Rural Development improve its performance measurement system by:

- Reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve.
- Strengthening the process that the Ministry uses to compile its performance measures.

Page 52

Lack of moisture insurance contracts—Recommendation No. 4
We recommend the Agriculture Financial Services Corporation award insurance benefits in accordance with its lack of moisture insurance contracts.

Page 53

IT controls
We recommend that the Agriculture Financial Services Corporation improve control over its information technology (IT) by:

- obtaining assurance on technical aspects of its computer control environment; and
- implementing appropriate controls for two of its commercial loan systems.

Children's Services

Page 59

Strategic management information—Recommendation No. 5
We recommend that the Ministry of Children's Services improve the Authorities' strategic management information systems.

Page 66

First Nation Agency accountability—Recommendation No. 6
We recommend that the Department of Children's Services improve monitoring of services provided by the Delegated First Nation Agencies.

Page 68

First Nation expense recoveries—Recommendation No. 7
We again recommend that the Ministry of Children's Services improve its systems to recover expenses from providing services to children and families ordinarily resident-on-reserve (2002—No. 7).

Page 69 **Contract management systems**
We again recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts (2002—page 53).

Page 75 **Timing of approval**
We again recommend that the Ministry of Children's Services ensure that the Authorities' business plans are approved before the start of the year (2002—page 61).

Community Development

Page 80 **Service delivery alternatives—Recommendation No. 8**
We recommend that the Ministry of Community Development evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas.

Page 81 **Contract management**
We recommend that the Ministry of Community Development improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance.

Page 82 **Excluded operations—Recommendation No. 9**
We again recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of provincially-owned facilities (2002—No. 11).

Economic Development

Page 89 **Defining and assessing core businesses—Recommendation No. 10**
We recommend that the Ministry of Economic Development revise its business plan to clearly demonstrate the desired results each core business is to achieve, and ensure its performance measures demonstrate the Ministry's contribution to results.

Page 89 **Discussion of environmental factors and risk**
We recommend that the Ministry of Economic Development expand its business plan discussion of significant environmental factors and risks, including setting out their relationship to the strategic priorities stated in the plan.

Page 90 **Implementing and monitoring**
We recommend that the Ministry of Economic Development streamline its operational planning process and improve guidance on operational plans provided to divisions/branches.

Page 91 **Internal performance measurement and reporting**
We recommend that the Ministry of Economic Development accelerate the implementation of its internal performance measurement framework for each division and branch, including developing logic models or similar tools, and improve its internal reporting process.

Page 91 **Human resource processes**
We recommend that the Ministry of Economic Development evaluate the implementation of its performance management system to improve adherence to program guidelines.

Energy

Page 95 **Royalty reduction programs**
We recommend that the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives.

Page 96

Alberta Royalty Tax Credit (ARTC) program—Recommendation No. 11
We recommend that the Department of Energy document and communicate the objectives of the *Alberta Royalty Tax Credit* program and develop measures to assess whether the program is meeting its objectives.

Page 97

Assurance—well and production data
We recommend that the Department of Energy:

- improve the communication of its needs for assurance on well and production data to the EUB.
- evaluate the extent of audit work done on well and production data by the EUB in relation to its needs.

Environment

Page 103

Contaminated sites information systems—Recommendation No. 12
We recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.

Page 105

Integrated Resource Management (IRM)—Recommendation No. 13
We recommend that the Deputy Minister of Environment, working with the Sustainable Development Coordinating Council:

- plan and report against *Alberta's Commitment to Sustainable Resource and Environment Management* annually *to* Standing Policy Committee; and
- complete the legislative and regulatory regime review required by the *Commitment*.

Finance

Page 118

Loan concentration limits—Recommendation No. 14
We recommend that Alberta Treasury Branches provide support for its loan portfolio industry concentration limits.

Page 119

Lending policy compliance—Recommendation No. 15
We recommend that Alberta Treasury Branches ensure its lenders comply with corporate lending policies.

Page 121

Risk management—Recommendation No. 16
We again recommend that Alberta Treasury Branches implement an enterprise risk management framework to assist in managing significant risks (2002—No. 16)

Gaming

Page 127

Gaming products and services—Recommendation No. 17
We recommend the Alberta Gaming and Liquor Commission (AGLC) implement processes to ensure:

- gaming operators buy gaming supplies from registered suppliers.
- AGLC buys gaming terminals and gaming supplies only from registered suppliers.

Page 128

Use of proceeds—Recommendation No. 18
We recommend AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds.

Page 131 **Contracting processes**

We recommend AGLC strengthen its process to award and manage contracts by:

- establishing more comprehensive contracting policies.
- improving monitoring of contractors' compliance with contractual terms and conditions.
- establishing contracts before services are provided.
- requiring consultants to formally confirm they do not have an interest in any organization that conflicts with their obligations to AGLC.

Government Services

Page 139 **Disaster recovery plans**

We recommend that the Department of Government Services make provision for appropriate recovery facilities and equipment to resume business operations if a service disruption occurs.

Page 140 **Project management plan for Registry Renewal Initiative—Recommendation No. 19**

We recommend that the Department of Government Services complete and approve a project management plan for the Registry Renewal Initiative.

Page 143 **Performance measures—Recommendation No. 20**

We again recommend that the Alberta Corporate Service Centre clearly define its performance measures and improve its processes to track and report results (2002—No. 22).

Health and Wellness

Page 151 **Performance agreements and business plans—Recommendation No. 21**

We again recommend the Department of Health and Wellness ensure performance agreements are in place at the start of the period to which they apply (2002—No. 23).

Page 152 **Control of, and accountability for, conditional grants—Recommendation No. 22**

We again recommend the Department of Health and Wellness improve its control processes for ensuring accountability for conditional grants (2002—page 134).

Page 154 **Province Wide Services—Recommendation No. 23**

We recommend that the Department of Health and Wellness and the Province Wide Services Working Group clarify the mandate of the Working Group and improve processes to achieve that mandate.

Page 156 **Changes in service grouping methodologies**

We recommend the Province Wide Services Working Group review the changes to the qualifying list of PWS services arising from methodology changes.

Page 157 **Pre- and post-transplant services**

We recommend that the Department of Health and Wellness and the Province Wide Services Working Group decide what pre- and post-transplant services qualify as PWS services and determine their costs.

Page 158 **Improved quality control process**

We recommend that the Department of Health and Wellness improve the quality control review process for performance information in its Annual Report.

Page 159 **Alberta's report on Comparable Health Indicators**

We recommend that the Department of Health and Wellness continue to improve the processes used to prepare its next *Alberta's Report on Comparable Health Indicators*.

Page 161 **Calgary Health Region—contract management**

We recommend that the Calgary Health Region set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks.

Human Resources and Employment

Page 168 **Meeting system user needs—Recommendation No. 24**

We recommend that the Department of Human Resources and Employment ensure the Contract Management Administration System meets user requirements.

Page 175 **Economic loss payments—Recommendation No. 25**

We recommend that the Workers' Compensation Board (WCB) strengthen controls in its claim management system for economic loss payments.

Infrastructure

Page 181 **Terms and conditions of construction grants—Recommendation No. 26**

We recommend that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. The terms and conditions should include:

- an accountability framework, including roles and responsibilities
- the consequences of failing to adhere to the terms and conditions
- reporting requirements
- the Ministry's right to audit

Page 182 **Monitoring of construction grants—Recommendation No. 27**

We recommend that the Ministry of Infrastructure strengthen its monitoring processes for construction grants.

We also recommend that the Ministry make all construction grant payments through the Consolidated Cash Investment Trust Fund (CCITF) bank account.

Page 185 **Construction management contracts**

We recommend the Ministry of Infrastructure implement a process to ensure that contracts with construction managers protect the Ministry's interests as a funder and are cost-effective.

Page 187 **Physical security of government buildings—Recommendation No. 28**

We recommend that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them by:

- identifying resources to lead and coordinate security related activities for and between various ministries
- establishing and communicating a minimum standard of security for all buildings
- implementing increased levels of security on buildings determined by risk and security assessments to require enhanced protection
- monitoring compliance with recommendations made in risk and security assessments

Innovation and Science

Page 198 **Alberta SuperNet**
We recommend that the Ministry of Innovation and Science prepare a plan for testing completed components of SuperNet.

Page 199 **IMAGIS use**
We recommend that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS.

Page 201 **IMAGIS governance—Recommendation No. 29**
We again recommend that the Ministry of Innovation and Science formalize and implement an effective accountability framework for IMAGIS (2002—No. 32).

Page 204 **Co-ordination of reviews of control environments at service providers**
We again recommend that the Ministry of Innovation and Science coordinate reviews of control environments at service providers (2002—page 171).

Page 205 **Systems development—Recommendation No. 30**
We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, implement a systems development methodology (2002—No. 33).

International and Intergovernmental Relations

Page 210 **Intergovernmental agreements**
We recommend that the Ministry of International and Intergovernmental Relations enhance its intergovernmental agreements systems to comply with section 11 and schedule 6 of the *Government Organization Act*.

Justice and Attorney General

Page 215 **Maintenance Enforcement Program**
We recommend that the Ministry of Justice and Attorney General obtain sufficient information from the Ministry of Children's Services to ensure maintenance enforcement payments for children in care are paid to the appropriate party.

Learning

Page 223 **Affordability of the Learning system—Recommendation No. 31**
We recommend that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.

Page 224 **Measurement of results—Recommendation No. 32**
We recommend that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.

Page 226 **Tuition Fee Policy compliance—Recommendation No. 33**
We recommend that the Department of Learning require public post-secondary institutions to comply with the Tuition Fee Policy. We also recommend that the Department clarify the methodology for applying the Policy.

Page 231 **Grant accountability**
We recommend that the Department of Learning improve its grant processes.

Page 232 **Alberta School Foundation Fund net assets**
We recommend that the Department of Learning determine the amount of net assets that the Alberta School Foundation Fund should retain.

Page 235 **Internal control systems—Recommendation No. 34**
We again recommend that the University of Alberta improve its system of internal control (2000—No. 35, 2001—No. 37 and 2002—No. 40).

Page 236 **Fraud policy**
We recommend that the University of Alberta develop and implement a policy to define its actions, responsibilities, authority levels and reporting lines in case of allegations of fraud.

Page 238 **Internal control systems—Recommendation No. 35**
We again recommend that the University of Calgary improve its internal control systems (2001—No. 38 and 2002—No. 43).

Page 241 **Mount Royal College—internal controls**
We recommend that Mount Royal College increase efficiency in the preparation of internal and external reporting and increase the accuracy of the reporting.

Page 242 **Periodic budgets**
We recommend that the Southern Alberta Institute of Technology perform monthly analysis of budget-to-actual or budget-to-forecast variances to monitor performance throughout the year.

Page 243 **Business case analysis—Recommendation No. 36**
We again recommend that the Southern Alberta Institute of Technology improve the business case analysis for major projects (2001—No 40).

Municipal Affairs

Page 254 **Acquisition and accounting for capital assets—Recommendation No. 37**
We recommend that the Ministry of Municipal Affairs not record the acquisition of its assets as grant expense. We further recommend that the Ministry not disburse funds for the development of its systems before any development occurs.

Revenue

Page 260 **Amount of audit work—Recommendation No. 38**
We recommend that Tax and Revenue Administration of the Ministry of Revenue decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation.

Page 262 **Tax Exempt Fuel Users program**
We recommend that the Department of Revenue define the objectives of the *Tax Exempt Fuel Users* program and evaluate the results.

Seniors

Page 267 **Accountability of management organizations—Recommendation No. 39**

We recommend that the Ministry of Seniors improve its system for monitoring the performance of management organizations that deliver social housing programs for the Ministry.

Solicitor General

Page 272 **Contracting of police services—Recommendation No. 40**

We again recommend that the Department of the Solicitor General implement the plan for provincial policing standards (1998—No. 34).

Sustainable Resource Development

Page 277 **Contracting for a province-wide radio system**

We recommend that the Department of Sustainable Resource Development follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long-term lease projects.

Transportation

Page 282 **Monitoring and auditing—Recommendation No. 41**

We recommend that the Ministry of Transportation strengthen its monitoring of and audit processes for driver examiners by:

- preparing annual plans for monitoring and auditing examiners
- promptly monitoring and auditing driver examiners, and reporting the results to senior management
- training driver program administrators to identify the risk factors of unethical behaviour and to investigate problem examiners
- making the license renewal process as rigorous as the application process

Page 285 **Code of conduct**

We recommend the Ministry of Transportation implement a process to mitigate the risk of examiners being affiliated with driver training schools or registry agents.

We also recommend the Ministry enhance its code of conduct and require examiners to reconfirm compliance with the code of conduct and conflict-of-interest requirements.

Cross-Ministry

Summary: what we found in our audits

1. The government should improve the practices of audit committees in board-governed agencies, boards and commissions—see page 25.
2. The government needs to use consistent performance measure targets in the government and ministry business plans—see page 27.

Overview

Systems that affect all or several ministries

This section is unique because it focuses on the results of our examination of government systems and programs that affect the whole government or several ministries.

Central agencies develop policies that ministries implement

A number of ministries, such as Executive Council and Finance, are central agencies with broad government responsibilities. These central agencies develop corporate policies, strategies and guidance for ministries to operate within. Ministries are responsible for implementing government policies.

Ministries are encouraged to work together

The government encourages ministries to work together to solve common problems. This is evidenced by the cross-ministry policy and administrative initiatives that are identified in the government business planning process. Ministries also work together on other matters that require several ministries to achieve results.

Scope: what we did in our audits

1. We examined the practices of audit committees in board-governed agencies, boards and commissions in the Alberta public sector.
2. We examined the government and ministry business plans for 2003–2006, and examined the government's progress in establishing standards for ministry business plans.

3. We also examined the government's progress in:
   - improving its internal control systems
   - improving the results analysis in the 2002–2003 ministry annual reports
   - developing detailed service agreements for shared service arrangements
   - establishing an internal audit function
   - providing guidance to departments on the use of the government competency model for human resource management
   - developing business case standards

Findings and recommendations

1. Governance of audit committees

Introduction

Audit committees help over 100 varied ABCs in governance

Agencies, Boards, and Commissions (ABCs) govern over 100 organizations in the Alberta public sector. Many of these ABCs have established audit committees to help fulfill governance responsibilities. The nature and scope of operations of ABCs are significant and vary in terms of size, complexity, autonomy from government, impact on individual industry sectors and communities, and financial operations.

ABCs have significant financial operations

ABCs are involved in banking, health care, education, regulatory management, and social services—to name a few. The financial responsibilities of ABCs are diverse. ABCs manage over $26 billion of investments in the banking industry and pension plans. ABCs spend over $6 billion on education and over $5 billion to deliver health care. Some ABCs manage only a few hundred thousand dollars in revenue and expenses. Programs administered by ABCs are equally varied and give rise to complex and sensitive regulatory management issues and require complex computer systems.

Ministries that employ ABCs to achieve goals include Learning, Children's Services, Health and Wellness, Finance, Revenue, Human Resources and Employment, and Agriculture, Food and Rural Development.

Detailed report issued to audit committees

We issued a report to the government and audit committees on the results of our examination of audit committee practices for organizations in the broad Alberta public sector. The report is on our website at www.oag.ab.ca. In it, we make a number of specific recommendations that the government and individual boards or audit committees should consider. These recommendations address the:

- need for appropriate financial literacy skills
- importance of a written mandate and annual performance assessment
- development of a calendar of events
- need for improved communication of expectations regarding the nature and timing of information reported to the audit committee
- sufficiency of meeting minutes
- oversight of the development of a risk management framework and a process to report on risks
- review of the need for an internal audit function and a direct channel to the audit committee for employees or key stakeholders
- need to work with internal and external auditors

Audit committee practices varied

Audit committee practices vary greatly. The fundamental challenge facing the various ministries and audit committee members is to ensure that needed improvement in practices occurs. This will require leadership from senior government officials and the most skilled and experienced individuals on audit committees. We have made the following comprehensive recommendation to meet this requirement.

Recommendation No. 1

We recommend that the Deputy Minister of Executive Council, working through other deputy ministers, take steps to improve audit committee practices in the Alberta Public Sector.

As the external auditor for all but a few of these organizations, we are prepared to work with the deputy ministers, chairs of the boards and the audit committees to implement this recommendation. We will support the government, ministries, and each audit committee in implementing recommendations to improve audit committee performance. For example, we will work with other external governance-based organizations such as the Institute of Corporate Directors to develop and support a website dedicated to improving public sector audit committee practices. We will also continue our practice of providing information on changing demands and expectations for audit committees, participating in audit committee training sessions, and providing other support as requested by audit committees.

Background

The government relies on board-governed organizations to deliver significant services and therefore to achieve government and ministry goals. An audit committee is a key committee supporting a board in its overall governance of an organization. Audit committees typically are responsible for oversight of the relationship with the external and internal auditor, internal control, reporting of financial and other information, and risk management practices. These are all important matters that an audit committee carries out for its board.

The recent financial collapse of several high-profile corporations in the private sector highlights the importance of a well-functioning audit committee. Audit committees are equally important in the public sector.

Criteria

Audit committees should:

1. comprise independent members with sufficient financial knowledge and experience
2. operate under a written mandate that the board approves annually
3. articulate to management its information needs
4. meet regularly throughout the year with a pre-established and appropriate agenda
5. review the principal financial and regulatory risks and controls of the ABC
6. assess the effectiveness of the ABC's systems of internal controls and for legislative compliance and receive related compliance reports from management
7. oversee the ABC's processes for appropriate financial reporting and internal audit
8. maintain open and direct communication with the external auditor
9. have ready access to necessary information to enable it to accomplish its objectives

Findings

No standards or guidelines for audit committees

Currently, audit committees work in relative isolation of each other. The government has not provided common direction to audit committees on performance standards or guidelines. There are a few situations where the enabling legislation of an ABC includes audit committee requirements or standards. However, it is not necessary to have legislation to implement good practices.

Skill sets and capabilities are highly inconsistent

The skill sets and capabilities of audit committee members in ABCs are highly inconsistent. Some audit committees have the expertise to assess and implement changes to their mandate and to achieve good practices in governance. However, others clearly are uncertain about how to deal with new expectations. While the degree of difference is not unexpected given the number of ABC audit committees and the differing size and scale of ABCs, the inconsistency is not confined to any one sector or to only smaller organizations. In our opinion, this is because the expectations of audit committees are under rapid change.

The Canadian Institute of Chartered Accountants, the Institute of Corporate Directors, the Financial Executives Institute and other provincial and federal government organizations and academic institutions, as well as capital market regulators, are all examples of the types of organizations available to provide insight and good practices. In fact, there is an abundance of recent advice. Board members told us that they need help sorting out which is most useful for them.

Most committees confused over applicability of private sector practices

Most audit committees and management of ABCs are concerned about effective governance. However, there is also a high degree of confusion about what governance practices from the private sector were appropriate for public sector ABCs and a general consensus that there is a lack of communication of good practices for public sector audit committees. Many of the private sector practices can be transferred, but public sector audit committees have unique challenges. These arise from the legislation and their relationship to government ministries. Therefore, government needs to develop specific guidance for public sector audit committees.

Implications and risks

Without sufficient practices, audit committees could be ineffective

Audit committees play a key role in helping ABCs manage risk and meet their goals and objectives. If the quality of audit committee practices is not sufficient to balance the operating challenges and complexities of the ABCs, the audit committee may not be effective in fulfilling its governance responsibilities for financial reporting, risk management, and legislative compliance.

2. Business plans

2.1 Consistency of performance measures in government and ministry business plans

Recommendation

We recommend that the Deputy Minister of Finance, working with other deputy ministers, ensure that government and ministry business plans use consistent performance measure targets.

Background

The *Government of Alberta 2003–2006 Business Plan* includes performance measures for each goal. Of the 75 performance measures in the government plan, 55 also appear in ministry business plans. We assessed whether the performance measures appearing in both the 2003–2006 government and ministry plans were consistent.

Criteria

Performance measures and targets presented in both the government and ministry business plans should be consistent.

Findings

We found discrepancies in the targets for the measures between the government and ministry plans.

Government and ministry targets inconsistent

The targets for 13 performance measures differed in either the government or ministry plan. For example, a target is set as an absolute value in one business plan, while the corresponding government or ministry plan expresses the target as a minimum ("at least" and "or lower").

Nine measures in the government plan have target dates that are inconsistent with the dates in the corresponding ministry measures. The government plan specifies the years in which the targets should be met, while the ministry plans don't.

Implications and risks

The government business plan provides the overall direction and targets for the ministry business plans, and its performance measures assess the government's performance against those targets. When targets appearing in both the government and ministry business plans are inconsistent, the users of these plans will not gain a clear understanding of expected performance.

2.2 Guidance on ministry business plans

Background

The *Government Accountability Act* requires the government and ministries to prepare three-year business plans. These business plans are a critical part of the government's accountability framework as they communicate what the government expects to achieve with the money it spends.

In our *2001–2002 Annual Report* (2003—No. 3), we recommended that the Ministry of Finance, working with other ministries, develop comprehensive standards for preparing ministry business plans, and that the deputy ministers and the Ministry of Finance ensure the standards are followed. This year, we assessed the progress government has made in implementing this recommendation.

Criteria

Government and ministry business plans should comply with the *Government Accountability Act*. The business plans should communicate what is to be achieved over the three-year planning period by clearly articulating the core businesses, and the goals, strategies, performance measures and costs for each core business.

Findings

In July 2003, Alberta Finance issued *Government of Alberta Business Plan Standards* for the 2004–2007 ministry business plans. The standards include mandatory components for ministry business plans and a template for ensuring a consistent format. Ministries are instructed to follow the format and use the terminology contained in the standards. Accompanying the standards was the *Government of Alberta Business Plan Reference Guide*, which replaces the guidelines issued for the 2003–2006 planning cycle. The guide provides more information to help ministries implement the standards.

The standards, together with the *Reference Guide*, mean our recommendation to develop comprehensive standards for preparing ministry business plans is implemented. We will report on the second part of our recommendation, that the deputy ministers and the Ministry of Finance ensure that the standards are followed, in next year's annual report. Because the standards will apply to the 2004–2007 business plans, we cannot assess implementation yet.

The establishment of the standards has implemented, at the corporate level, a number of our other previous recommendations. For example, in our *1999–2000 Annual Report* (2000—No. 2), we recommended that ministries, with assistance from the Department of Treasury, improve the link between goals and core businesses in ministry business plans. The standards require that each core business have one or more unique goals that address the outcomes desired for the core business.

Implications and risks

The three-year business plans issued by the government are critical accountability documents. Development of, and adherence to, comprehensive standards creates an opportunity to significantly improve the quality of plans.

3. Internal control systems

Background

Accounting system used by departments

The IMAGIS system (see Glossary) is the primary accounting system for government financial and payroll transactions. There are many users, with the main ones being the Alberta Corporate Service Centre (the Centre) and departments. The Centre processes financial transactions for departments and is responsible for ensuring that transactions are correctly processed. Departments rely on information from IMAGIS and are responsible for the accuracy of their financial records.

Disbursements should comply with legislation

Sections 37(4) and 38(5) of the *Financial Administration Act* (the Act) require that department disbursements be approved by both an expenditure officer and an accounting officer before a payment is made. In addition, section 38(6)(a) requires an accounting officer to approve disbursements only after being satisfied that an expenditure officer has already authorized the disbursement.

Weaknesses in internal control systems

Last year, we identified weaknesses in the control systems of the Centre and ministries for the processing of payroll and payments—primarily those made through three systems: procurement cards, the Electronic Payment System (EPS), and the Expense Claim System (ExClaim). We also identified deficiencies in the IMAGIS general control environment for access and security. Therefore, we recommended that the Department of Finance, working with the other departments and the Centre, improve internal controls, in particular, controls for:

- access to the IMAGIS system
- the use of procurement cards
- compliance with sections 37 and 38 of the *Financial Administration Act* (2002—No. 1)

Criteria

Ministries should have adequate internal controls to ensure that payments for supplies and services and payroll transactions are properly authorized and recorded.

Findings

Satisfactory progress—control systems guidelines developed

The government is making satisfactory progress in implementing our recommendation. In response to the control weaknesses we identified last year, the Senior Financial Officers (SFO) Best Practices Sub-Committee developed control system guidelines for several accounting systems including payments for supplies and services made through procurement cards, EPS, and Exclaim, and for payroll transactions.

Departments will use guidelines to improve their systems

The control system guidelines incorporate key internal controls and should help departments improve their internal controls systems. Departments will use the guidelines to evaluate their own control systems and identify new controls that they can implement or existing controls that they can strengthen during the 2003–2004 fiscal year.

Guidance and training for expenditure and accounting officers

The SFO Council also developed handbooks for expenditure officers and accounting officers. The handbooks clarify and explain the roles and responsibilities of expenditure and accounting officers. Expenditure officers and accounting officers in departments received training on the new handbooks.

The following observations summarize the current status for each of the three key weaknesses we noted last year.

Compensating controls to manage risks

a) Access to the IMAGIS system—The SFO Council decided to delay modifying the security administration profiles within IMAGIS until after upgrades to the system are completed in 2003. In the interim, departments implemented sufficient compensating controls to mitigate the weaknesses and resulting risks that we identified during the previous year's audit.

Implemented new policy for procurement card use

b) Use of procurement cards—The government revised its procurement card policy and departments implemented the revised policy in 2002. We examined procurement card controls and transactions of ministries after they implemented the new policy. Ministries have made significant improvements to their controls for ensuring that procurement card expenses are properly authorized and supported and procurement card statements are submitted promptly for approval. Departments perform a regular review of procurement card expenses and the results are reported to the respective executive committees of each Department.

Guidelines require approval of payments to comply with legislation

c) Compliance with the *Financial Administration Act*—Under the new control guidelines, each department will appoint a central expenditure officer for the EPS and procurement card payments to authorize disbursements before payments are made. For ExClaim, expenditure officers will approve each transaction on the system before it is paid. For payroll, expenditure officers will review additions and changes to payroll information. Accounting officers will review and approve the transactions for all streams after approval by an expenditure officer and before payments are made.

Departments need to implement the new control system guidelines. We will review the full implementation of this recommendation in 2003–2004.

4. Results analysis in ministry annual reports

Background

Ministries need to improve results analysis

In 1999–2000, we recommended that ministries enhance the results analysis in their annual reports by providing an integrated analysis of financial and non-financial information (2000—No. 4). Last year, we reviewed the discussion of results in ministry annual reports and found that ministries made progress in implementing the recommendation but further work was required.

Ministry annual report standards provide guidance

The Department of Finance develops ministry annual report standards to establish consistency across all ministries in the presentation of information in ministry annual reports. These standards are reviewed annually and approved by the Senior Financial Officers Council and deputy ministers.

Criteria

Ministry annual reports should present an integrated analysis of financial and non-financial information for each core business including:

- actual and planned costs and an explanation of significant variances
- a discussion of significant financial statement variances
- goals, strategies, and performance measure results and an explanation of significant variances

Findings

Improved results analysis

Ministries have made satisfactory progress in implementing this recommendation by improving their results analysis in the draft 2002–2003 ministry annual reports.

Better guidance on integrated results analysis

The Department of Finance has also improved the guidance provided to ministries on preparing an integrated results analysis in the 2002–2003 Ministry Annual Report Standards. The Standards now indicate that annual reports should:

- include a discussion of the ministry's core businesses, goals, strategies and performance results (financial and non-financial)
- link financial results to progress in achieving the goals and performance targets for each core business
- explain significant variances between results, targets and prior year's results, identify key factors that affect performance and describe significant events

While ministries have improved results analysis, we recognize that the quality of the analysis depends on the quality of the business plan. Ministries that did not link core businesses to goals and measures in their 2002–2005 business plans had difficulty preparing an integrated results analysis in their 2002–2003 annual reports.

Using new business plan standards will help improve results analysis

As we indicated earlier in this section, business plan standards have been prepared by the Department of Finance for the 2004–2007 ministry business plans. These new standards will further help ministries improve their results analysis. The first year that ministries will report against the new business plans will be 2004–2005. We will continue to evaluate progress and report on the quality of results analysis in the 2004–2005 ministry annual reports in 2005.

5. Shared services

5.1 Alberta Corporate Service Centre

Service level agreements be developed and signed

In our *2000–2001 Annual Report*, we recommended that the Deputy Minister of Executive Council, the Alberta Corporate Service Centre (the Centre) and ministries take immediate action to develop and sign service level agreements that detail the services to be provided by the Centre, the associated costs, and performance measures (2001—No. 2). Last year, we indicated that the Centre made satisfactory progress in developing and signing agreements but they needed to sign all agreements, including cost budgets, before the beginning of the year, and to continue to improve the quality of the agreements.

Recommendation implemented

The Centre has implemented our recommendation. A standard customer service agreement sets forth the purpose, principles, terms and conditions, and arrangements under which the Centre will provide services to ministries. The agreement includes a product and service listing and agreed service exceptions, service level standards for each service area, and a cost budget. The Centre signed its 2003–2004 agreements and the corresponding cost budgets with all ministries, except for the Ministry of Learning, before the beginning of the year.

5.2 Shared service agreements between departments

Shared service agreements to be improved

We previously recommended that deputy ministers review and update shared service agreements for services between departments (2001—page 45). Last year, we found that departments had made satisfactory progress in developing shared service agreements but needed to improve the agreements by defining costs and developing performance standards for each service area.

Recommendation implemented

Deputy ministers have implemented our recommendation. The deputy ministers, through a sub committee of the Senior Financial Officers' Council, developed and approved a template for preparing shared service agreements. It provides a good basis for developing agreements. Departments have used this template to develop their shared services agreements in 2003–2004. We examined approximately 30 agreements and found that most of the agreements outline the services to be provided and the total costs, costs for each of the services provided, and related performance standards.

6. Internal audit

Last year, we recommended that the Deputy Minister of Executive Council, working with other deputy ministers, establish an internal audit function to provide assurance that significant government systems and risks are managed effectively (2002—No. 2).

Government established internal audit function

The government has implemented the recommendation. In May 2003, the deputy ministers established an internal audit function and defined the mandate, scope, structure, authority, reporting relationships and resources for the function. The centralized function will provide internal audit services to all government ministries. The function has a broad scope that includes examining programs and functions, financial control systems, compliance audits and the effectiveness of operations. A chief internal auditor was appointed in May and began work in July 2003. He reports to the Deputy Minister Internal Audit Committee and administratively to the Deputy Minister of Executive Council. The Chief Internal Auditor is currently working on further defining the role of the function, establishing an audit plan, and obtaining resources to complete the work.

7. Human resource management—government competency model

Last year, we recommended that the Personnel Administration Office (PAO), working with the deputy ministers, improve guidance for the use of the Alberta Public Service Competency Model (the Model) (2002—No. 3).

Improved guidance using the competency model

PAO and deputy ministers have implemented this recommendation. This year, PAO gave departments guidance on using the Model. This guidance included a detailed implementation guide, as well as training and communication on the use of the Model. PAO plans to continue working with departments to improve and implement the Model. We will examine the use of the Model by departments in future audits.

8. Business case standards

Business case standards approved

We previously recommended that the Ministry of Executive Council work with other ministries to develop standards for business cases (2001—No. 1). The government has implemented this recommendation. In September 2002, the Deputy Ministers Committee approved a *Business Case Template* and *Usage Guidelines* and ministry staff attended training sessions.

Ministries are using the template

All deputy ministers are now responsible for ensuring their ministry follows the business case standards. We have already observed instances of ministries (such as the ministries of Infrastructure and Transportation) using the Template for significant projects. We will examine the use of the standards in the development of business cases for significant future government initiatives.

Government of Alberta Annual Report

Summary: what we found in our audits

1. **Financial statements**
   We issued an unqualified auditor's opinion on the Government of Alberta's consolidated financial statements. Our auditor's reports on 21 of 24 ministry financial statements included reservations of opinion. The government needs to change some corporate accounting policies to resolve these reservations—see page 39.

2. **Other performance information**
   We found no exceptions when we applied specified auditing procedures to the core measures and supplemental information in the *Measuring Up* section of the Government of Alberta's Annual Report. We found exceptions in six ministries when we applied specified auditing procedures to ministry performance information in the 2002–2003 ministry annual reports—see page 43.

Overview

This section highlights the results of our examination of the Government of Alberta Annual Report.

Minister of Finance is responsible

The Minister of Finance is responsible for preparing the government fiscal and business plans and the consolidated annual report under the *Government Accountability Act*.

Government business plan and report

The government's business plan identifies its core businesses and goals, key strategies, and measures and targets for each core business. The government's fiscal plan outlines the consolidated budget to achieve the desired results in the business plan. The Government of Alberta Annual Report identifies the results achieved against the targets set in the business and fiscal plans.

24 ministries contribute to government results

There are 24 ministries. Ministers and deputy ministers are responsible for managing their ministries and contributing to the achievement of government goals. Ministry business plans and reports provide information on the ministry's contribution to government results.

2002–2003 financial results

Government received $23 billion and spent $21 billion

In 2002–2003, the Government of Alberta received $23 billion in revenue and spent $21 billion. The following summarizes the significant revenues and expenses:

	(millions of dollars)
Revenue	
Income and other taxes	$ 9,599
Non-renewable resource revenue	7,130
Transfer from Government of Canada	2,074
Other	3,878
	22,681
Expenses	
Health	6,871
Education	5,463
Other	8,514
	20,848
Net results of operations	$ 1,833

Website

For more information on the government and its programs, see its website at www.gov.ab.ca.

Scope: what we did in our audits

1. We audited the government's consolidated financial statements and all ministry financial statements for the year ended March 31, 2003. We also followed up our previous recommendation to improve corporate government accounting policies.

2. We applied specified auditing procedures to the government's performance information reported in the *Measuring Up* section of the government's annual report and all ministry annual reports. We also examined the government's progress in improving the results analysis in *Measuring Up*.

Findings and recommendations

1. Financial statements

1.1 Auditor's report

Unqualified opinion on consolidated financial statements

We issued an unqualified auditor's report on the government's consolidated financial statements for the year ended March 31, 2003. These financial statements consolidate the following entities of the government:

- Departments—24
- Regulated funds—13
- Provincial agencies—47
- Commercial enterprises—5
- Commercial Crown-controlled corporation—1
- Non-commercial Crown-controlled corporation—1
- Offices of the Legislative Assembly—6

Government uses disclosed basis of accounting

The government prepares its consolidated financial statements on a disclosed basis of accounting. However, for several years we have said that Canadian generally accepted accounting principles (GAAP) are the appropriate standards to assess whether financial reports are presented fairly. As reported in previous annual reports, we believe that there are still changes required to move the disclosed basis of accounting to GAAP.

Government will change method of accounting for capital assets in 2004

One significant change necessary is the method of accounting for capital assets. New Public Sector Accounting Board standards recommend that governments record capital assets in their statement of financial position for fiscal years beginning on or after April 1, 2005. The Department of Finance has stated that it will adopt this new standard and change the accounting policy to record capital assets in the province's consolidated statement of financial position for the year ended March 31, 2004. Other areas still to be resolved are discussed in section 1.2.

21 of 24 ministry auditor's reports include reservations of opinion

We have applied GAAP in auditing the financial statements of ministries. We issued auditor's reports with no reservation of opinion for three ministries (Children's Services, Economic Development and Gaming). Our auditor's reports on the financial statements of the remaining 21 ministries contained reservations of opinion. Further detail on the issues that led to these reservations is in section 1.2.

1.2 Corporate government accounting policies

Recommendation No. 2

We again recommend the Department of Finance change corporate government accounting policies to improve accountability (2002—No. 15).

Background

The Department of Finance establishes corporate government accounting policies and reporting practices that ministries must follow. Last year, we again recommended (2002—No. 15) that the Department of Finance change corporate government accounting policies to improve accountability. The government accepted this recommendation in principle and indicated that it would continue to review the accounting policies in conjunction with our Office and the work of the Public Sector Accounting Board (PSAB).

Findings

Four accounting issues resolved

This year, the Department of Finance resolved the following accounting policy issues that had caused us to reserve our opinion in our auditor's reports on several ministry financial statements:

- The financial statements of the Ministries of Health and Wellness and Sustainable Resource Development now include certain inventory assets that were previously not recorded.
- The Ministry of Human Resources and Employment now records the accrued benefits liability for the government's share of the long-term disability plans' actuarial deficiency.
- The Ministry of Learning adjusted its provision for provincial education tax adjustments and appeals.
- The Department of Finance revised its guidance on the appropriate financial statement disclosure for discontinued operations to comply with generally accepted accounting principles (GAAP).

Audit report reservations

However, our auditor's reports on 21 of the 24 ministry financial statements included reservations of opinion. The majority of them resulted from ministries' compliance with corporate government accounting policies and reporting practices. All of these matters are summarized below.

Certain entities inappropriately excluded from the financial statements of government

a) Reporting entity—since 1997, we have reported that universities, public colleges, technical institutes, regional health authorities and school boards have been inappropriately excluded from the reporting entity. Ministry financial statements should include all assets, liabilities, revenues and expenses of entities that ministries control. The exclusion of these entities has a significant impact on the government consolidated financial statements and on the financial statements of four ministries.

PSAB issued new guidance on issue

Since our last *Annual Report* on the reporting entity issue, the PSAB has prepared revised guidance on this issue. The government has also indicated in its response to the Financial Management Commission Report that it will consider consolidating these entities for implementation by ministries in *Budget 2006*. The Department of Finance has indicated that it will prepare a work plan to progress this issue in the next year.

17 ministries understate their capital assets

b) Capital asset threshold—the financial statements of 17 ministries understate capital assets. As a result, we reserve our opinion in our auditor's reports on these ministries. The understatement results because the government requires ministries to follow a corporate government accounting policy that is contrary to GAAP. The policy requires ministries to expense any capital asset—with a cost less than $15,000 and a useful life more than one year—in the year the ministry acquires it. GAAP, on the other hand, requires a ministry to amortize the asset over its useful life.

Total understatement of government assets of $120 million

The amount of the understatement varies by ministry: it is large for some ministries, small for others. But the total effect on government and ministry financial statements is significant—we estimate an understatement of the capital assets of the government and ministries of at least $120 million as at March 31, 2003. The government has proposed a new accounting policy to solve the matter. We expect a resolution by March 2004.

Estimates for liabilities

c) Liabilities—there were reservations of opinion in our auditor's reports on the financial statements of:

- The Ministry of Justice—because liabilities for personal injury claims costs under the *Motor Vehicle Accident Claims Act* were not recorded.
- The Ministry of Solicitor General—because liabilities for recurring payments from the *Victims of Crime Fund* were not recorded.
- The Ministries of Environment, Infrastructure, and Transportation—because liabilities for site restoration costs were not recorded.
- The Ministry of Learning—because the estimated liability for student loan remissions was overstated.

Revenues and expenses excluded

d) Excluded operations—there is one reservation of opinion in our auditor's report on the financial statements of the Ministry of Community Development because the Ministry's revenue and expenses from operations of certain cultural facilities are not included in the financial statements (see the ministry section of this report on page 82 for further details).

Related party transactions not disclosed

e) Related party transactions—the government's practice is to disclose only transactions between organizations within the reporting entity as related party transactions. GAAP requires that related party disclosure include any organization that is subject to significant influence. We reserve our auditor's opinion on the financial statements of three ministries (Health and Wellness, Community Development and Learning) because of this departure from GAAP. This issue is closely related to the reporting entity matter described above in (a). Accordingly, we will work with management to resolve this issue as part of our discussions on the reporting entity.

Provisions are recorded in two ministry financial statements

f) Provisions for Swan Hills reclamation—our auditor's reports on the financial statements of the Ministry of Environment and the Ministry of Sustainable Resource Development include an information paragraph. The financial statements of both ministries include certain provisions and expenses for reclamation activities of Swan Hills sites and it is uncertain which ministry should record these provisions (see the ministry sections of this report—pages 107 and 279 for further details).

Expenses did not comply with legislation

g) Legislative non-compliance—in addition to reserving our opinion in our auditor's reports, we report all significant instances of non-compliance with legislation. In our auditor's report for the Ministry of Community Development, we reported that certain expenses in the financial statements did not comply with the governing legislation (see the Ministry of Community Development chapter of this report for further details—page 82).

Implications and risks

Omissions or misstatements in financial statements will mislead users of the financial statements, including Members of the Legislative Assembly.

2. Other performance information

2.1 Specified auditing procedures

No exceptions

We found no exceptions when we completed specified auditing procedures on the core measures and supplemental information in the *Measuring Up* section of the Government of Alberta's Annual Report.

Exceptions in our reports for five ministries

We found no exceptions when we completed specified auditing procedures on the performance information in the 2002–2003 ministry annual reports for 18 ministries. However, our reports for the ministries of Children's Services, Economic Development, Energy, Government Services, Infrastructure and Transportation noted exceptions. These exceptions are described in the sections of those ministries in this *Annual Report.*

2.2 Results analysis in Measuring Up

We previously recommended (2001—No. 47) that the Department of Finance enhance the results analysis in *Measuring Up* by discussing how external factors influence the government's performance results. This information helps users evaluate reported performance and is useful in explaining the reasons for variances.

Improved results analysis in Measuring Up

Management has implemented this recommendation. *Measuring Up* 2003 includes more discussion of the impact of external factors on performance than prior year reports. The discussion and analysis section for most goals now includes some disclosure of external factors affecting performance. In addition, the introduction to the report includes a high-level discussion illustrating how the actions of government and all Albertans affect core measure results.

Aboriginal Affairs and Northern Development

Summary: what we found in our audits

Qualified auditor's report

1. **Financial statements**
   Our auditor's report on the Ministry financial statements has one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

2. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Four core businesses

The Ministry's 2002–2005 business plan describes four core businesses:

- promote and facilitate effective relations between the Province and First Nation and Metis Settlement governments, First Nation and Metis organizations, businesses and people, as well as with Northern Alberta municipalities, businesses and people
- manage the Province's legal and constitutional obligations with respect to First Nations, Metis and other aboriginal people
- assist the ongoing development of accountable, self-administering, self-regulating, and self-reliant Metis Settlement governments
- promote and coordinate the economic and social development of Aboriginal and Northern communities

The Ministry is responsible for leading specific aboriginal and northern initiatives, including the Aboriginal Policy Framework, Aboriginal Policy Initiative, and a Northern Alberta Development Strategy.

Department and other entities

The Ministry consists of the Department and the Northern Alberta Development Council. The Metis Settlement Appeal Tribunal reports to the Minister.

Ministry spent $64 million

In 2002–2003, the Ministry spent $64 million on the following programs:

	(millions of dollars)
Aboriginal relations	44
Metis Settlements governance	8
Statutory expenses for Metis Settlements	10
Northern development	2

No external revenue

The Ministry receives no revenue from sources external to government.

For more information about the Ministry, visit its website at www.aand.gov.ab.ca.

Scope: what we did in our audits

Three parts to our audit

1. We audited the financial statements of the Ministry for the year ended March 31, 2003.

2. We completed specified auditing procedures on the Ministry's performance measures.

3. We examined circumstances reported to us about the government approval process for resource development on Crown land to see if they warranted further review. We found they didn't. We also found appropriate police and government planning processes to mitigate risks.

Agriculture, Food and Rural Development

Summary: what we found in our audits

1. **Systems**
   The Ministry should improve its performance measurement system by:
   - reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve—see page 49.
   - strengthening the process that the Ministry uses to compile its performance measures—see page 49.

2. **Financial statements**
   We have one reservation of opinion on the financial statements of both the Ministry and Department—see page 51.

Work still in progress

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 51.

4. **Other entities that report to the Minister**
   The Agriculture Financial Services Corporation should award insurance benefits in accordance with its lack of moisture insurance contracts—see page 52. In addition, the Corporation should obtain assurance on technical aspects of its computer control environment and implement controls for two of its commercial loan systems—see page 53.

Overview of the Ministry

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:
- facilitate industry growth
- enhance rural sustainability
- provide safety nets

Ministry structure

The Ministry consisted of the following entities during 2002–2003:
- Department of Agriculture, Food and Rural Development
- Agriculture Financial Services Corporation
- Agricultural Products Marketing Council

- Alberta Dairy Control Board (dissolved August 1, 2002; responsibilities transferred to Alberta Milk, an industry-managed organization)
- Alberta Grain Commission
- Farmers' Advocate
- Irrigation Council
- Crop Reinsurance Fund of Alberta

Ministry spent $1.824 billion

In 2002–2003, the Ministry spent $1.824 billion. The largest programs in the Ministry are:

	(million of dollars)
Insurance	877
Farm income support	535
Dariy Board milk price equalization payments	143
Debt servicing	47
Industry development	43
Sustainable agriculture	33
Planning and competitiveness	32

Ministry received $910 million

The Ministry received $910 million in revenue in 2002–2003. The following represent the largest revenue sources of the Ministry:

	(million of dollars)
Transfer from the Government of Canada	416
Dariy Board milk price equalization payments	143
Reinsurance and recoveries	113
Premiums from insured persons	102
Interest and investment income	101

For more detail on the Ministry, visit its website at www.agric.gov.ab.ca.

Scope: what we did in our audits

1. During our performance measures work, we followed up the Ministry's progress on our 2001–2002 recommendation that it report progress toward its industry performance targets. We also monitored progress against our 1999–2000 *Managing for Results* recommendations.

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2003.

Work still in progress

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements of the Agriculture Financial Services Corporation, Alberta Dairy Control Board, and Crop Reinsurance Fund of Alberta. The Agricultural Products Marketing Council, Alberta Grain Commission, Farmers' Advocate, and Irrigation Council do not produce separate financial statements. At the request of the Corporation, we also completed claims compliance audits for the federal government. As part of the Corporation's financial statement audit, we examined the payments for the lack of moisture insurance program. We also followed up our 1999–2000 recommendation that the Corporation obtain assurance on its information technology control environment.

Findings and recommendations

1. Systems findings

1.1 Performance measurement

Recommendation No. 3

We recommend that the Ministry of Agriculture, Food and Rural Development improve its performance measurement system by:

- **Reviewing its goals and performance measures to ensure that they reflect the results that the Ministry wants to achieve.**
- **Strengthening the process that the Ministry uses to compile its performance measures.**

Background

External forces influenced original goals and measures

Through 2001–2002, the Ministry presented seven goals and seven performance measures in its business plans and Annual Reports. The Ministry could only achieve these goals and performance measures with significant influence from parties and forces external to the Ministry. Measures such as farm cash receipts, value of out-of-country shipments, and land productivity index depend on weather, international pricing, and industry participation. This led to performance evaluation issues for the Ministry because drought and other external factors impaired its reported results.

2001–2002 recommendation

Last year, we recommended (2002—No. 5) that the Ministry report progress toward its industry performance targets. The targets are $10 billion in farm cash receipts and $20 billion in value-added agricultural shipments by 2010. These targets related directly to the Ministry's goals, but the actual results were never presented in the Ministry's Annual Report.

Goals and measures were redefined

For 2002–2003, the Ministry completely redefined its goals and performance measures. There are 5 new goals and 18 new measures.

Criteria

Government standards offer guidelines

The Government of Alberta publishes *Business Planning Standards*, which we use as the criteria to assess a performance measurement system. The *Standards* define key terms such as goals, performance measures, and targets and give guidance on how these concepts should be applied. For example, measures should be relevant, reliable, objective, timely, and focused on the ministry's sphere of influence. A process should exist to compile accurate, timely measurements.

Findings

Many 2002–2003 measures have been dropped

The Ministry formed goal teams to develop the 5 goals and 18 performance measures for 2002–2003. While the 5 goals carry forward to 2003–2004, 8 of the 18 measures have been dropped from the 2003–2006 business plan and one other measure was significantly revised. Five new measures have been introduced in the 2003–2006 business plan. This means that half of the 2002–2003 measures lasted only one year. The Ministry's executives intend to revisit their goals and measures in the fall of 2003. Our 2001–2002 recommendation cannot be implemented until this analysis is complete.

Goals should reflect what the Ministry wants to achieve

The Ministry should review its goals and measures to determine whether they strike the proper balance regarding external influences. Four of the five goals depend heavily on external factors. For instance, "growth of the agriculture and food industry" will be heavily impacted by this year's BSE crisis. External stakeholders may not see how such broad goals help define what the Ministry can achieve by its own efforts. To influence behaviours within the Ministry, these goals may not "focus actions towards clearly defined purposes."[1]

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[1] Page 20, 2003–2004 Government of Alberta *Business Plan Reference Guide*.

Performance measure indicate whether goals are met

Performance measures should relate to the goals and show whether they are being achieved. Macro indicators such as the industry performance targets may be useful supplementary information to set the context for the Ministry's goals.

Process to compile performance information needs to improve

The process to compile annual performance measurement information needs to improve. The process for the year called on each of the five goal teams to compile its own performance measurement information. The Ministry did not appoint a central coordinator to support the process, nor did it use standard forms to document measures. The compilation of many measures was left until May 2003, and then the BSE crisis reduced the resources available to complete the work. There was no central review of the draft results before inclusion in the draft annual report that went to the Standing Policy Committee. There were numerous errors in the draft annual report and, in general, the Ministry was not ready to be audited.

Implications and risks

If goals and measures are not carefully designed, readers will not be able to assess progress and staff may not understand critical directions. Executive, stakeholders, and the general public will not receive relevant, accurate, and timely performance information until the measurement processes are improved.

1.2 *Managing for results*

For future follow up

We monitored the status of the 1999–2000 recommendations from the *Managing for Results* project. Due to the nature of these management systems, the Department will not fully implement our recommendations until 2003–2004. We will follow up these recommendations next year.

2. Financial statement audits

Capital assets are understated

Our auditor's reports on the Ministry and the Department financial statements have one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

Work still in progress

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

4.1 Lack of moisture insurance contracts

Recommendation No. 4

We recommend the Agriculture Financial Services Corporation award insurance benefits in accordance with its lack of moisture insurance contracts.

Background

Lack of moisture program is a new pilot for 2002

The Agriculture Financial Services Corporation offered pasture insurance programs in the past, but these programs generated customer complaints that led to their elimination in 2000. For the 2002 crop year, the Corporation initiated a lack of moisture (LOM) pilot program to fill the need for pasture insurance. Under the LOM program, the producer elected a nearby weather station and obtained insurance, with any indemnity payment based on the rainfall at the elected weather station. The LOM program was not designed to compensate producers for a direct production loss. It compensated producers based on a lack of rainfall at the nearby weather station.

Contracts associated with the Brooks station did not qualify for payments

The rainfall in 2002 had to be less than 80 percent of the historical normal rainfall at a weather station to trigger a payment under the insurance contract for the LOM pilot program. Producers in the Gem area of the province elected the Brooks weather station. The Brooks weather station received 87.8 percent of the normal rainfall. Therefore, producers electing the Brooks weather station did not qualify for payments under the contract of insurance.

Criteria

The Corporation should make payments in accordance with its contracts of insurance.

Findings

Producers not satisfied with the pilot program

Gem area producers approached the Corporation and government for compensation under the LOM program. Producers argued that they purchased insurance, suffered a farming loss, yet received no compensation. Meanwhile, neighbours with similar farming losses may have benefited by electing another weather station.

The Corporation awards premium rebates

The Corporation initially rejected these requests for compensation. In February 2003, the Corporation revised its position and approved a plan to award a premium rebate to all producers in the province who purchased insurance under the LOM pilot program. The premium rebate takes the form of a prepayment of 2003 premiums for the LOM program. The credit is calculated as the 2002 premiums paid less any payments awarded under the program for the 2002 crop year. The premium rebate cost the Corporation $1.472 million.

Introduction of pilot programs being reconsidered

Even though LOM was a pilot program, the premium rebate does not follow the terms of the insurance contract. The Corporation has said that it did not intend to set a precedent with this decision. Gem farmers have applied to the Corporation's Appeal Committee seeking full payment on their LOM contracts. Recognizing the flaws in the LOM program, the Corporation redesigned the program for 2003. For future pilot programs, the Corporation will consider different test marketing strategies that do not have financial implications for the producers or the Corporation.

Implications and risks

Issues arising from the premium rebate

Awarding a non-contractual payment under an approved program of the Corporation poses risks. Despite the Corporation's intentions, these payments may set a precedent for producers who seek concessions if programs do not respond to their perceived needs. Changing payment rules after program delivery makes it difficult to analyze the results of the program. Changing payment conditions could compromise the actuarial soundness of the LOM program.

4.2 IT controls

Recommendation

We recommend that the Agriculture Financial Services Corporation improve control over its information technology (IT) by:

- **obtaining assurance on technical aspects of its computer control environment; and**
- **implementing appropriate controls for two of its commercial loan systems.**

Background

The Corporation hires the IT managers

In our *1999–2000 Annual Report,* we recommended that the Corporation obtain assurance on the control environment of its outsourced computer services provider. At that time, the service provider supplied all IT staff to the Corporation; these staff operated the Corporation's systems on the Corporation's premises. Since then, the Corporation has hired the service provider's managers as employees of the Corporation. The Corporation felt that having the service provider's staff report directly to managers of the Corporation would enhance control and accountability.

The Corporation acquires two legacy systems

On April 1, 2002, the Corporation merged with the Alberta Opportunity Company and acquired that Company's Integrated Loans Receivable (ILR) system and Enterprise Information System (EIS). These systems automate the commercial loan application, approval, and tracking processes. ILR and EIS are used to manage $140 million in commercial loans and are core systems for the Corporation's commercial lending operations.

Criteria

The Corporation's IT environment should meet established standards of control. Authoritative standards include COBIT and SysTrust.

Findings

Internal Audit reports on aspects of the IT environment

The Corporation's IT environment has evolved since 1999–2000, so our recommendation from that year is no longer valid. Nevertheless, to provide assurance, the Corporation's Internal Audit examined electronic data access, backups, and security in the IT environment and made recommendations to management in April 2003. While the final report included important recommendations to enhance procedural and policy controls, it did not address the more technical aspects of the IT environment. This is understandable given the specialized nature of IT auditing.

Other areas in the IT environment would benefit from specialized review

The IT environment is essential to delivering the Corporation's financial programs. To date, each review of the computer control environment by the Internal Audit or us produces recommendations to enhance IT controls. The work should be extended by having specialized, independent staff examine key technical areas such as:

- the security and configuration of the Unix, Windows 2000, and Novell operating systems
- firewalls
- network switches
- database security

ILR and EIS controls can be improved

Management intends to replace the ILR and EIS systems over the next few years. However, management needs to ensure that these systems are well controlled and operating effectively until they are replaced. Our audit identified weaknesses in:

- segregation of incompatible functions in the information technology area
- access controls over the SQL database
- system documentation for the EIS system

Implications and risks

Control of IT environment and individual systems is important

A well designed and controlled IT environment supports the information and decision-making needs of the Corporation. An inadequate computer control environment can lead to unreliable, inefficient, or unsupportable computer systems. Management needs assurance that individual systems produce timely, accurate, complete results. Strong controls provide a foundation for that assurance.

4.3 Financial statement audits of entities that report to the Ministry

Unqualified audit opinions

The financial statements of the Agriculture Financial Services Corporation, Alberta Dairy Control Board, and Crop Reinsurance Fund of Alberta received unqualified auditor's opinions.

4.4 Canadian Farm Income Program compliance auditing

Unqualified auditor's reports

At the request of the Agriculture Financial Services Corporation, we prepared auditor's reports addressed to Agriculture and Agri-Food Canada on the following schedules related to the Canadian Farm Income Program:

- Administrative costs incurred and charged by the Corporation for the period ended March 31, 2002
- Advances received under the program by the Corporation as at February 6, 2003
- Program payments made to producers and advances received from the Government of Canada by the Corporation for the 2000 claim year

Children's Services

Summary: what we found in our audits

1. **Systems**
   The Ministry should improve systems and procedures in the following areas to help it effectively deliver services at a reasonable cost:
   - Information systems—the Department and 10 Child and Family Services Authorities still need to improve information systems so they produce accurate and relevant information on costs and results—see page 59.
   - Delegated First Nation Agency accountability—the Department needs to improve its monitoring of children's services provided by Delegated First Nation Agencies—see page 66.
   - First Nation expense recoveries—the Department and Authorities still need to improve their systems to help ensure that they recover all costs for children and families who are ordinarily resident-on-reserve—see page 68.
   - Contract management systems—the Ministry can still improve the awarding and managing of contracts—see page 69.
   - Authorities business plans—the Ministry should ensure approval of business plans before the start of the year—see page 75.

2. **Financial statements**
   In our financial statement audits of the Ministry, Department, and Authorities, we have no reservations of opinion.

3. **Specified auditing procedures**
   We found exceptions when we completed specified auditing procedures on four of the Department's performance measures—see page 76.

Overview of the Ministry

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:
- promoting the development and well-being of children, youth and families
- keeping children, youth and families safe and protected
- promoting healthy communities for children, youth and families

Before April 2003, the Ministry consisted of the Department and 18 Authorities. As of April 1, 2003, the government reduced the number of Authorities to 10. The Authorities encompass the different regions of the province and deliver most of the Ministry's services. The Department supports the Ministry and the Authorities, and co-ordinates provincial programs such as *Protection of Children Involved in Prostitution* and the *Fetal Alcohol Initiative*.

Ministry spent $659 million

In 2002–2003, the Ministry spent $659 million, of which the Authorities spent $515 million. The following programs incur the largest costs of the Ministry:

	(millions of dollars)
Child welfare	361
Services to children with disabilities	63
Family and community support services	57
Child care	56
Early intervention	40
Program support services	36
Prevention of family violence	14
Community capacity building	12

Ministry received $146 million

The Ministry had $146 million in revenue in 2002–2003, $106 million of which came from the following transfers from the Canadian government:

	(millions of dollars)
Canadian Health and Social Transfer	80
Child Welfare Special Allowance	14
Service to On-Reserve Status Indians	12

For more details on the Ministry, visit its website at www.child.gov.ab.ca.

Scope: what we did in our audits

1. We examined the strategic management information used at the Authorities and the Department's monitoring of services delivered by First Nation Delegated Agencies. We also followed up our previous recommendations to improve information systems, expense recoveries of First Nation costs, contract management systems, the Department's use of the Centre's compliance audit services, operations of the

Children's Advocate Office, governance systems, business plans and annual reports.

2. We audited the financial statements of the Ministry, Department, and Authorities for the year ended March 31, 2003.
3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Systems findings

1.1 Department and Authority information systems

We carried out one new audit on the Ministry's information systems that provide strategic management information to Authorities. Also, in our *2001–2002 Annual Report* (pages 47 to 51), we made recommendations to improve information systems in four areas. We now report the findings of our new systems audit and the status of the four previous recommendations.

1.1.1 Strategic management information

Recommendation No. 5

We recommend that the Ministry of Children's Services improve the Authorities' strategic management information systems.

Background

This audit is closely related to our follow-up audit on costs and results information—see section 1.1.2. This audit goes deeper into the information Authorities use to manage their organizations.

Management and boards need financial reports and information on program effectiveness

Management and the boards of Child and Family Services Authorities require relevant and accurate information to plan, manage, and control Authorities. Management and boards must assess the financial position and the performance of the Authorities in meeting their goals. Therefore, we focused our audit on the following types of management information:

- financial reports (for example, interim revenue and expense results, accrual forecasts, and cash forecasts)
- regular management information reports used by Authorities' management to evaluate program effectiveness

Criteria

1. Authorities should prepare financial reports using accurate and relevant information.
2. The Department and Authorities should regularly produce useful information to determine the effectiveness of programs.

Findings

Authorities receive fairly standard monthly reporting package

Since the inception of Authorities in 1999, the information available to the management and boards has continued to improve. There is now a fairly standard monthly reporting package used by all 12 Authorities that we reviewed. Also, the Authorities and the Department are now starting to develop information on the effectiveness of programs. However, the Department and Authorities need to take the following five actions to improve both financial reports and management information on performance effectiveness:

Better variance analysis will improve information to management

1. **Improve analysis of variances**—Reports should provide written explanations at a detailed level of variances (actual to prior year/month actual, actual to budget, actual to forecast). Significant variances were often summarized in written CEO reports for the boards. However, detailed variance analysis typically did not exist. While this summary may be adequate for the board, other levels of management would benefit from more detailed information on variances.

   Variance analysis provides important information to management. It helps them understand the results of their actions and makes historical reports more useful.

Standardization of key reports will promote good practices and allow comparability

2. **Expand standardized financial reports and processes**—Different Authorities use different financial reports and processes. This means that there may be opportunities to identify good practices in information systems and in financial reporting. The Department and Authorities should standardize certain financial reports and processes based on collectively determined good practice. Standardization is possible and important because the Authorities have common systems and goals, and many users of the financial information compare results between Authorities.

   For example, Authorities use different information systems in preparing forecasts. Some Authorities generate forecast information on a case-by-case basis. Other Authorities use cost-per-case data multiplied by the number of cases. Still other Authorities are using historical spending patterns and trends along with Child Welfare Information System (CWIS) reports to prepare the forecast.

Better use of cost drivers will help the accuracy of forecasts

3. **Improve the use of cost drivers in forecasts**—Cost drivers are factors that influence the amount of services the Authorities need to provide. An example of a cost driver is the number of cases. The Authorities use cost drivers in varying degrees to calculate the forecast. However, the Authorities do not clearly document how cost drivers impact the forecast at a summary level. For example, an increasing forecast could be explained by the components that make up the increase, such as an increase in contract costs or an increase in number of cases multiplied by the cost-per-case.

   Clear documentation of the cost drivers provides evidence that a supportable methodology was used in preparing the forecasts. It provides the information necessary for management to review and approve the forecasts, which would help improve accuracy. It would also be useful in the event of turnover of key staff involved in preparing forecasts.

Greater use of accrual information will improve trend analysis

4. **Expand the use of accrual information**—Authorities' management and boards use reports that are prepared either on essentially a cash basis or an accrual basis. Quarterly financial statements and some financial information is based on accrual accounting. Most financial information used by Authorities' management is prepared essentially on a cash basis. Both cash based and accrual based information are useful and each may be appropriate for different purposes. However, greater use of accrual information will improve trend analysis as management will not have to interpret how the timing of the receipt of billings affected the information. Management's interpretation of information is further complicated since the documentation of variances, due to the timing of the receipt of billings, needs to be improved.

Better review of past forecasts will improve forecast model

5. **Review and update the forecast model**—Authorities regularly update forecast information based on actual results and new information and, in some cases, compare past forecasts to actual results. However, the review of past forecasts is not common and contains little qualitative analysis to determine what caused the differences between the forecast and actuals and whether changes are needed to the forecasting model. Therefore, it is difficult for

management to determine if the variances were a result of a flaw in the forecast method, changes in caseload, or something else.

The Department and Authorities need to take the following three actions to improve the assessment of performance effectiveness:

The Department and Authorities can improve performance effectiveness information

1. **Prepare more outcome performance information**—while the information available to management and the boards is improving, the vast majority of information is still focused on economy and efficiency. Little is reported on effectiveness, or on whether the Authorities are achieving case outcomes. In general, the children's services sector needs to improve information on outcomes. The Department participates in developing the National Outcome Measures, a cross-Canada project to improve children's services outcome information. As these measures are better defined over time, information on outcomes will improve, but there is still outcome performance information available today that the Ministry should make better use of.

Better qualitative analysis will help determine whether services are achieving desired outcomes efficiently

The Department and Authorities need to improve the analysis of key financial reports, such as the information in the Financial Practice Review (FPR) that the Department prepares. The FPR and other financial reports contain a great deal of useful information, such as comparisons of costs of providing services between Authorities. However, the financial indicators by themselves do not give the complete picture and could be misinterpreted. For instance, one cannot conclude whether a higher cost-per-case in an Authority is justified unless the information is accompanied by analysis on outcomes or reasons for the resulting information.

Ministry-wide analysis is needed

There is a need for a Ministry-wide analysis that provides information on the reasonableness of certain indicators and outcomes given the circumstances. For example, the FPR has statistics that track the number of cases closed and reopened. However, we did not find any analysis of whether the number is reasonable or why the cases had to be reopened. There is also no analysis as to what percentage of cases reopened is reasonable. This analysis would be important management information, as reopened cases are evidence that the Ministry is not meeting its goals.

Timelier performance measure information is needed

2. **Prepare timelier performance information**—Authority management and boards require information during the year to determine if they are on track. However, many Ministry-wide performance measures rely on surveys that are carried out once a year or every two years. The Ministry should now determine internal measures that support the common ministry measures and that can be reported to Authority management and boards routinely during the year.

Improved documentation and approval of service plans is needed

3. **Improve documentation and approval of services plans**—as part of our cost and results information systems audit last year, we stressed the importance of documenting in the case files the rationale for the chosen service delivery method and the results achieved. The Ministry still has not improved its case file documentation on the rationale for the chosen method and results. Discussions on service delivery take place between the social worker, supervisor and parent or guardians; however, in most cases, the case files do not contain the reasons for the chosen service. Further, in 7 out of 10 service plans we reviewed in one Authority, there was no evidence of agreement by the casework supervisor on the service delivery method.

Implications and risks

Without good strategic management information, Authorities risk making improper decisions and not achieving their goals.

1.1.2 Cost and results information

Background

On page 49 of our *2001–2002 Annual Report*, we reported that the Ministry had made satisfactory progress in improving its information systems that report the costs and results of services. Last year, the Ministry had started to implement a new costing system, through its *Child Welfare Program Accountability* (CWPA) project that was to be implemented in three years. The Ministry also refined its Financial Practice Review reports to include more complete and accurate information.

Criteria

The Ministry should have a detailed plan, which includes a timeline for completion of the CWPA project.

Findings

The Ministry has made satisfactory progress.

Comprehensive timeline for CWPA project exists

The Ministry has a comprehensive timeline for phase one of the CWPA project to help ensure it stays on target. In addition, it has a status update that shows that phase one of the project is generally on target. Its planned completion date for phase one is December 2003. Full implementation of the project is targeted for the second quarter of 2005–2006.

Completion of the CWPA project should improve summarized information on costs and results

There currently is little summarized information on the costs and benefits of providing different services. The Department expects the CWPA project to provide this summary level information. It also expects to control the costs of different services through monitoring service providers at this summary level. This strategy is reasonable and will implement our recommendation. However, it will not yield results until the CWPA project is implemented.

Implications and risks

By operating with inadequate information on costs and outcomes, the Ministry risks providing inadequate and overpriced services.

1.1.3 Program support services

Background

On pages 47 and 48 of our *2001–2002 Annual Report*, we reported on the progress of two recommendations from our *1999–2000 Annual Report*. The first was that the Department and Authorities examine support services, including shared services, to improve cost-effectiveness. The second was that the Department and Authorities enter into service agreements with their service providers.

Last year, we concluded that progress was satisfactory on the first recommendation. However, we again recommended that the Department and Authorities enter into service agreements with their service providers.

Criteria

The Ministry should have a timeline for:

1. an updated agreement with the Alberta Corporate Services Centre (the Centre) on services that the Centre provides
2. service agreements between Authorities and the Centre

Findings

The Ministry has made satisfactory progress on both recommendations.

Ministry has assessed services required from the Centre

The Ministry has continued to improve the cost-effectiveness of support services. It has negotiated with the Centre to better define the services the Centre provides. Discussions are ongoing and should be completed soon.

Progress made in implementing service agreements

The Ministry has made satisfactory progress in implementing service level agreements as well. The Ministry still has only a master agreement with the Centre, which covers all Authorities. However, it now has a timeline to implement the recommendation. Implementation was not possible for the 2003–2004 agreements due to a re-alignment of roles and responsibilities within the Ministry and defining of the Centre's services. Implementation is planned for the 2004–2005 agreements.

Implications and risks

Without service level agreements, the Ministry may not be getting the most cost-effective services.

1.1.4 Funding allocation

Background

On page 50 of our *2001–2002 Annual Report*, we recommended that the Ministry of Children's Services allocate funding to Authorities in a way that provides for appropriate incentives and therefore allows the Authorities to plan and manage their business. We also reported that the Ministry had not progressed due to frequent funding allocation changes throughout the year that hindered the Authorities' ability to manage.

Criteria

1. Each Authority should receive funds according to the initial budget.
2. The Ministry should have a timeline for getting the acceptance of the funding allocation method from the Co-chairs for the 2004–2005 fiscal year.

Findings

The Ministry has made satisfactory progress.

Frequent funding allocation changes hinder Authorities' ability to manage

Again this year, the Ministry re-allocated funds among 16 Authorities to help ensure that no Authority incurred bank indebtedness or a deficit. Some of the re-allocations were significant; however, given the reorganization of Authorities, it is reasonable that funds are re-allocated for the March 31, 2003 year-end so that the new Authorities were not starting with a large opening deficit. But re-allocation of funds could reward poor management and penalize good management. In addition, it adds uncertainty to the Authorities' ability to properly manage.

Therefore, we will continue to follow up this point next year.

Progress on improving funding model delayed due to reduction in the number of Authorities

The Ministry has worked on an analysis of various factors that might influence the funding allocation model and has researched other jurisdictions. However, due to the reduction in the number of Authorities, this work was interrupted. The Ministry plans to continue this analysis and complete it by December 2003.

Implications and risks

Frequently changing funding allocations create disincentives for Authorities and make effective management difficult.

1.1.5 Year-end accounting processes

On page 51 in our *2001–2002 Annual Report*, we reported on the progress of the prior year recommendation that the Department and Authorities improve their year-end accounting processes to produce accurate and timely financial statements in accordance with good practice standards. The Department and Authorities have now implemented the one remaining issue by ensuring that all transactions are allocated properly between the Department or Authorities, or ensuring that there is a plan to allocate the transactions next year.

1.2 First Nation Agency accountability

Recommendation No. 6

We recommend that the Department of Children's Services improve monitoring of services provided by the Delegated First Nation Agencies.

Background

The Ministry of Children's Services is responsible for maintaining standards for the delivery of child welfare services to children and families in Alberta. Delivery of services is mainly done in either of two processes: Children and Family Services Authorities, which are part of the Ministry, and 18 Delegated First Nation Agencies (DFNAs), which are separate entities. Our work reviewed the DFNA process.

The Department does not have the same control over DFNAs as it has over Authorities. Each First Nation is a separate entity that is funded by the federal government. The Department also funds some of the First Nation services, such as grants for permanency planning. Change is often difficult as multiple parties must agree. We concentrated our audit on criteria that the Department could control.

The Department has four managers responsible for monitoring the DFNAs, through the First Nation Liaison Units. They are responsible for monitoring child welfare standards on DFNAs.

Each DFNA has a child welfare director whose role is defined in the *Child Welfare Act*.

Criteria

The Ministry should:
1. define roles and responsibilities for itself and DFNAs
2. define roles and responsibilities within itself for key functions relating to DFNAs
3. help ensure that DFNAs maintain standards for child welfare service delivery by regularly monitoring services that DFNAs provide

Findings

The criteria are partially met.

The First Nation Liaison Unit completes an annual review of child welfare files for compliance with standards at each DFNA. The reports generally include recommendations.

However, we noted the following areas that the Department should improve:

Monitoring the standards of services delivered by DFNAs can be improved

1. We could not find evidence of a Department-wide process to help ensure that the child welfare directors at each DFNA were properly trained on their roles and responsibilities.
2. There are inconsistencies in how the First Nation Liaison Units monitor the operations of DFNAs. For example, some First Nation Liaison Units review compliance of staffing and training while others do not. DFNA reviews should be standardized and more complete.
3. The reviews by First Nation Liaison Units do not consistently report on progress that has been made towards compliance with standards from one year to the next.

Monitoring of grants can be improved

4. The Department should improve the reporting requirements on grants provided for programs such as permanency planning. One condition of grants is that the recipient is required to submit a report to the Department summarizing and evaluating the project. This clause is generic and does not define what type of reporting is

required. Specifying reporting requirements, including a description of how the funds were spent, will assist Department staff in monitoring project outcomes.

Risks and Implications

There is a risk that the Department's review of each DFNA's compliance with standards set by the Department is not comprehensive; therefore, non-compliance with standards may occur.

1.3 First Nation expense recoveries

Recommendation No. 7

We again recommend that the Ministry of Children's Services improve its systems to recover expenses from providing services to children and families ordinarily resident-on-reserve (2002—No. 7).

Background

Department funds Authorities' on-reserve costs; then recovers these costs from DFNAs or the federal government

The Authorities deliver services to children and families ordinarily resident-on-reserve. The Department reimburses the Authorities for the costs of delivering these services. The Department then invoices DFNAs or the federal government for the cost of these services. The Ministry has entered into agreements or letters of understanding with each DFNA and the federal government.

Criteria

To recover costs, Ministry systems should:

- identify resident-on-reserve costs
- ensure that adequate information exists to recover costs
- ensure that all conditions for billing third parties are met
- reconcile payments made for resident-on-reserve costs to recoveries for them
- investigate and pursue amounts not recovered

Findings

The Ministry has not made satisfactory progress.

Ministry has taken steps to improve recoveries of costs

The Ministry did make changes to help improve the recovery of costs. These include the following:

- more detailed analysis of the amounts invoiced to the Department compared to amounts recorded as revenue
- improved reporting of outstanding accounts receivable
- recently negotiated agreements have included specific billing requirements

However, improvement is still needed in the following areas:

Reconciliation of costs to recoveries still can be improved

- The Department should continue to improve the reconciliation of First Nation costs and recoveries. The Department completes an overall reconciliation of costs to recoveries that provides assurance that the majority of costs are being recovered. But it does not provide sufficient detail on what costs are not recovered and why. The Department should also complete the reconciliation by agreement for each DFNA to give more detailed information on the recovery of costs. This would help Department staff manage individual agreements. They would be able to determine which agreements are effective and negotiate new agreements for ones that are ineffective.
- The Ministry developed a task force that produced recommendations to improve First Nation recoveries. Many of the task force recommendations were implemented but several are still outstanding. The Ministry should decide which of the remaining recommendations to implement and when.
- In the 2002–2003 fiscal year, the Ministry issued approximately $600,000 in credit notes to the DFNAs that were approved only by Authority staff and not by a Department expenditure officer. The Ministry should improve controls over issuing of credit notes by ensuring a Department expenditure officer properly approves them.
- We found instances where the billings to DFNAs were not issued promptly, which can hinder the cost recovery process.
- We could not find evidence of a proper process to follow up on outstanding accounts receivables. At March 31, 2003, 44% of the DFNAs accounts receivable were over one year old.

Implications and risks

Inadequate cost recovery processes could prevent the Department from recovering all eligible costs.

1.4 Contract management systems

Recommendation

We again recommend that the Ministry of Children's Services strengthen the processes used to award and manage contracts (2002—page 53).

Background

We made this recommendation on pages 53 and 54 of our *2001–2002 Annual Report*. The Ministry said that it is participating in a project designed to bring in a cross-ministry contract management system. It also informed us that as part of the project, it would review and update contract manuals, policy, and practices and processes.

We followed up on the Ma'mowe Capital Region and Calgary Rocky View Child and Family Services Authorities, and the Department's contract management systems to see whether the Ministry's systems improved.

Criteria

An effective contract management system should include:

1. conflict-of-interest guidelines
2. an analysis to ensure contracting is the most cost-effective way to provide the services
3. an appropriate and fair contract selection method
4. effective procedures and controls for contract management

Findings

The Ministry has not made satisfactory progress.

Results similar to prior year but progress made on implementing CMAS

Our findings were substantially the same as our findings in 2001–2002. We acknowledge that the Ministry is designing a risk management framework, contract policies, and templates to improve the contracting process. The Ministry is also working on a model for performance-based contracting. However, these are not complete. The Ministry plans to implement these documents and processes in conjunction with implementing the cross-ministry Contract Management Administration System (CMAS). The following policies and processes are still needed to effectively manage contracts:

Improvements are still needed on the processes to initiate and manage contracts

- A mechanism to identify potential conflicts-of-interest when renewing contracts.
- A formalized process to consider alternative service delivery methods when deciding to contract service delivery. A majority of the contracts in the Department and the two Authorities tested did not consider alternative service delivery methods.
- Policies on when to request competitive tenders rather than extend contracts.
- Policies and procedures for business continuity planning of contracted services.
- Better monitoring procedures and enforcement of contractor reporting requirements. Some examples of deficiencies at the Department and the two Authorities tested were: contract requirements were missing or not updated in the file; there was no evidence to indicate annual reviews were completed; and certain

reports were not always received promptly for agencies that were still paid in full.

Implications and risks

The Ministry spends significant funds on contracts. When adequate controls are not in place, the Ministry may enter into contracts that are not cost-effective.

1.5 Alberta Corporate Services Centre audit services

Background

On pages 54–56 of our *2001–2002 Annual Report*, we recommended that the Ministry improve accountability for audit services provided by Alberta Corporate Service Centre (the Centre). Management agreed with the recommendation and said that they would take a more active role in managing audit services provided by the Centre. They would do this by identifying areas of risk that should be managed through compliance audit activities. Management also agreed to work with the Centre to better clarify both parties' roles and responsibilities.

Criteria

1. The Ministry should improve its identification of risks and develop a strategy as to how certain risks are going to be mitigated by a compliance/internal audit function.
2. The Ministry should have evidence of discussions of needs between the Ministry and the Centre or any other party that provides these services.

Findings

The Ministry has made satisfactory progress.

We limited our criteria this year since the Ministry could not make significant progress on last year's recommendation because it re-aligned roles and responsibilities and worked on defining the Centre's services.

Ministry has taken steps to approve accountability for audit services

The Ministry improved accountability for audit services by:

- developing a risk management framework, communication plan, and risk management policy
- providing training to all levels of staff, as well as all divisions of the Ministry, on risk management and the framework
- developing a business management framework that will require a charter for each key initiative in the Business Plan; the charter will include the purpose, costs and benefits, scope, timelines,

deliverables, stakeholder involvement, identification of risks, level of risks and strategies to mitigate risks
- implementing an *Operational Planning and Reporting System* that allows management and staff to keep abreast of the status of strategies; the Ministry plans to implement this system at the Authority level in the next few months

Ministry needs to complete a more comprehensive overall risk assessment

The improvements are useful for identifying, documenting and mitigating risk in Children's Services. The Ministry now needs to incorporate the work already done into an overall Ministry risk assessment. The Ministry can use this overall risk assessment to help ensure that all significant risks are identified. As well, the assessment can help Authorities develop their own risk assessments.

Risk assessment should direct compliance/internal audit services

In addition, the Ministry has had preliminary discussions with the Centre on audit services they would like the Centre to perform. However, these discussions were not directed by an overall Ministry risk assessment. Discussions between the Centre and the Ministry should continue after the Ministry completes the overall risk assessment.

Implications and risks

The Ministry cannot ensure that risks are handled systematically without a formalized risk management process and agreement between the Ministry and the Centre on the audit projects to carry out, report, and follow-up.

1.6 Review of the Children's Advocate Office (OCA)

Background

In our *2001–2002 Annual Report* (pages 56–58), we made three recommendations to the OCA to improve the effectiveness of its children's advocacy system. We now report on the status of these recommendations.

1.6.1 Policies and practices

On page 56 of our *2001–2002 Annual Report*, we recommended that the OCA clarify its practices for cases when a child's viewpoint conflicts with the child's best interest, and then confirm these practices with the Minister of Children's Services.

OCA and Department have taken steps to ensure that Ministry

The OCA and Department have implemented this recommendation. Staff believe that the role of the OCA is clearly defined. The Department and OCA did two things to increase staff awareness of the OCA's role:

staff clearly understand OCA's role

- introduced quarterly reporting and discussions between CEOs and OCA staff
- introduced web-based training for Department staff

1.6.2 Accountability

On page 57 of our *2001–2002 Annual Report*, we recommended that the OCA improve the accountability information it reports to the Minister.

OCA now submit a business plan to the Minister

The OCA has implemented this recommendation. The OCA now prepares and submits a business plan to the Minister. The 2002–2003 annual report of the Children's Advocate will compare actual results to planned results for the year.

1.6.3 Collection and analysis of information

On page 58 of our *2001–2002 Annual Report*, we recommended that the OCA improve its processes to collect and analyze information that supports its recommendations for changes to the child welfare system.

OCA now has a process to confirm and share findings with Ministry

The OCA has implemented this recommendation. The OCA and Department implemented a new information collection system. The OCA has a process that confirms findings and shares results with the Ministry and the Directors of the Delegated First Nations Agencies on a quarterly basis.

1.7 Governance systems

1.7.1 Governance practices

Background

Authority boards now receive a generally well-defined monthly reporting package

On page 59 of our *2001–2002 Annual Report*, we reported on the progress on a prior year recommendation that the Department, in collaboration with the Authorities, improve the systems of governance employed by Authority boards. The Department and Authorities have now implemented the one remaining item requiring boards to properly assess their information requirements. Boards now receive a fairly standard monthly reporting package. This package could be further improved by implementing the recommendation made in section 1.1.1 on strategic management information—see page 59.

1.7.2 Risk assessment

Background

On page 60 of our *2001–2002 Annual Report*, we reported on the progress of a prior year recommendation that each Authority ensure that an appropriate risk assessment is carried out and that it establish a risk management system.

Findings

Authorities will complete risk assessments once the Ministry risk assessment is complete

The Authorities have not yet completed risk assessments or established risk management systems. Authorities will complete these assessments following the development of the Ministry risk assessment, which is being completed—see section 1.5 for information on the Ministry risk assessment. We will follow up this matter next year.

Implications and risks

Without complete risk assessments, Authorities may not develop appropriate strategies to mitigate risks.

1.8 Business plans

1.8.1 Quality of business plans

Background

On page 60 of our *2001–2002 Annual Report*, we concluded that progress was satisfactory on a prior year recommendation that the Ministry and Authorities should improve their business plans. We noted that two issues remained, which are discussed below.

Findings

Business plans now contain targets for three years

The first issue was that the Authorities did not provide unique targets for each year of the plan. The 2003–2006 business plans generally contain targets for all three years of the plan.

The second issue was that the Authorities did not report budget information by core business. Department staff said that the Authorities' reporting structure did not currently facilitate reporting this information, but the Department would look at solutions.

Recommendation implemented

Given that the remaining issue is not significant, we consider this recommendation to be implemented.

1.8.2 Timing of approval

Recommendation

We again recommend that the Ministry of Children's Services ensure that the Authorities' business plans are approved before the start of the year (2002—page 61).

Background

We made this recommendation on page 61 of our *2001–2002 Annual Report*.

Findings

The Ministry has not made satisfactory progress.

Business plan timeline for next year does not allow sufficient time for approval before the start of the year

We assessed the timelines for development and approval of the Authorities' 2004–2007 business plans. The planned submission date of the Authorities' business plans to the Minister for approval is April 1, 2004. This does not give the Minister time to review the plans, and provide input. Nor does it give Authorities time to make any adjustments to the plans before the start of the year.

The Department told us that April 1 would not be possible in years when the government estimates were not provided at least six weeks before year-end. We acknowledge that the Authorities' business plans are nearly complete before the start of the year. This is because much of the Authorities' business plans content is needed for the government estimates and the overall Ministry business plan, which are approved before the start of the year. However, changes to the business plan are possible until it is approved.

Implications and risks

If Authorities' business plans are not approved before the start of the year, management decisions may not be based on the final plan.

1.9 Annual reports

Background

On page 61 of our *2001–2002 Annual Report*, we recommended that the Authorities consider the availability of data for performance measurement and reporting when deciding which measures to include in their business plans.

Findings

The Ministry has made satisfactory progress.

Given the timing of the business plan/annual report cycle, the March 31, 2003 annual reports (due September 30, 2003) would be the first version that could implement our recommendation. However, we did review changes made by the Ministry to the business plan process.

The Ministry has developed Ministry-wide performance measures based on the fact that the Department expects to produce collectible data for the March 31, 2003 annual reports. We will assess the progress made towards improved reporting in the next audit cycle.

2. Financial statement audits

We audited the financial statements of the Ministry, the Department, and the following 18 Authorities for the year ended March 31, 2003:

1. Sun Country Child and Family Services Authority
2. Southeast Alberta Child and Family Services Authority
3. Windsong Child and Family Services Authority
4. Calgary Rocky View Child and Family Services Authority
5. Hearthstone Child and Family Services Authority
6. Diamond Willow Child and Family Services Authority
7. Ribstone Child and Family Services Authority
8. West Yellowhead Child and Family Services Authority
9. Keystone Child and Family Services Authority
10. Ma'Mowe Capital Region Child and Family Services Authority
11. Sakaw-Askiy Child and Family Services Authority
12. Sakaigun Asky Child and Family Services Authority
13. Child and Family Services Authority—Region 13
14. Region 14 Child and Family Services Authority
15. Neegan Awas'sak Child and Family Services Authority
16. Awasak Child and Family Services Authority
17. Silver Birch Child and Family Services Authority
18. Metis Settlements Child and Family Services Authority

In our financial statement audits of the Ministry, Department, and Authorities, we have no reservations of opinion.

3. Specified auditing procedures

We found an exception when we completed specified auditing procedures on four of the performance measures included in the Ministry's annual report. All four exceptions were because data was not available, and therefore, not reported on for performance measures that the Department had included in its business plan.

Community Development

Summary: what we found in our audits

1. **Systems**

Cost-effectiveness should be evaluated

1.1 The Ministry should re-evaluate the cost effectiveness of the service delivery alternatives for operating parks and protected areas—see page 80.

Contracting system needs improvement

1.2 The Ministry should improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance—see page 81.

2. **Financial statements**

Reservations of opinion

2.1 We have three reservations of opinion on the financial statements of the Ministry, one reservation on the financial statements of the Department and two reservations on the financial statements of the Historic Resources Fund—see page 82.

2.2 The Ministry should record Ministry revenues, expenses and surpluses generated through the private operation of provincially-owned facilities—see page 82.

3. **Specified auditing procedures**

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**

One reservation of opinion

Financial statements of six Persons with Developmental Disabilities Boards received unqualified auditor's opinions. One opinion has a reservation—see page 83.

Overview of the Ministry

Five core businesses

The Ministry's 2002–2005 business plan describes five core businesses:

- promoting community development
- protecting human rights and promoting fairness and access
- ensuring inclusion and participation for Albertans with disabilities
- preserving, protecting and presenting Alberta's history and culture

- preserving, protecting and presenting Alberta's provincial parks and protected areas

The Ministry consists of the Department, seven provincial agencies and seven Persons with Developmental Disabilities Boards (PDDs).

Ministry spent $573 million

In 2002–2003, the Ministry spent $573 million, primarily as follows:

	(millions of dollars)
Persons with Developmental Disabiities	408
Community development	75
History and culture	38
Provincial parks	37
Human rights	4

Ministry received $34 million

The Ministry received $34 million from sources external to government in 2002–2003, of which $15 million was from Canada Health and Social Transfers.

For more information on the Ministry, visit its website at www.cd.gov.ab.ca.

Scope: what we did in our audits

1. We examined the Ministry's system for operating parks and protected areas including the processes for selecting and monitoring private operators. As well, we examined the Ministry's systems used to safeguard and manage the program's assets.

2. We audited the financial statements of the Ministry, Department, and the following seven provincial agencies for the year ended March 31, 2003:
   - Alberta Foundation for the Arts
   - Alberta Historical Resources Foundation
   - Alberta Sport, Recreation, Parks and Wildlife Foundation
   - Government House Foundation
   - Historic Resources Fund
   - Human Rights, Citizenship and Multiculturalism Education Fund
   - Wild Rose Foundation

   We report on these entities together with the Department and Ministry because they are managed in a common financial reporting system.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We also audited the financial statements of the following seven PDDs:
    - Persons with Developmental Disabilities Provincial Board
    - Persons with Developmental Disabilities Northwest Alberta Community Board
    - Persons with Developmental Disabilities Northeast Alberta Community Board
    - Edmonton Region Community Board for Persons with Developmental Disabilities
    - Persons with Developmental Disabilities Central Alberta Community Board
    - Calgary Region Community Board Persons with Developmental Disabilities
    - Persons with Developmental Disabilities South Alberta Board

Findings and recommendations

1. Systems findings

1.1 Management of the Parks and Protected Areas

Background

The Ministry of Community Development's Parks and Protected Areas network includes 518 sites and encompasses over 2 million hectares of natural landscapes. The network ranges from small camping parks to vast natural areas.

Parks and recreational facilities operated by private contractors

In 1987, the Ministry decided to contract out the operation of about half of the provincial parks and recreational areas to private operators through facility operating agreements. Currently, there are 220 agreements. The agreements include performance requirements for private operators. The operators retain all revenue from the parks' operations except for the provincial levy, which they pay to the province. The agreements require operators to pay for repairs and maintenance up to a certain dollar limit. Although the operation of these provincial parks and recreational areas is contracted out to operators, the land and other assets remain Crown property.

For the fiscal year ended March 31, 2003, the Ministry's revenue from provincial parks that it operates was $1.8 million and the provincial levy collected by private operators was $0.7 million. As at March 31, 2003, the assets of provincially-owned parks had a cost of $361 million and a net book value of $181 million. These assets comprise parkland and buildings, land improvements, highways and roads, and bridges.

The organizational structure for the Parks and Protected Areas Division includes the head office located in Edmonton and seven area offices located throughout Alberta.

1.1.1 Service delivery alternatives

Recommendation No. 8

We recommend that the Ministry of Community Development evaluate the cost-effectiveness of the service delivery alternatives for operating parks and protected areas.

Criteria

The Ministry should:

- set criteria for evaluating service delivery alternatives for operating parks and protected areas, such as cost, quality of services, and environmental concerns, and make decisions based on the criteria
- review performance information and regularly evaluate the effectiveness of the operations of parks and protected areas

Findings

When the Ministry decided to contract out in 1987:

Criteria incomplete

- the criteria for evaluating service delivery alternatives were not comprehensive or well-documented and the Ministry did not consistently apply the criteria. The Ministry's service delivery alternatives include operating the park itself, contracting for specific services, and contracting the park's operations to private operators.
- the Ministry did not evaluate all its service delivery alternatives before it decided to contract with private operators.

No evaluation of effectiveness

We also found that the Ministry does not get summarized performance information from the area offices and has not determined if contracting with private operators is achieving the intended results.

Capital redevelopment budget inadequate

In addition, a 2001 business case indicated that there is growing deferred maintenance for the Parks and Protected Areas program. The business case states that the program requires another $39.8 million annually for 5 years to bring the assets to industry standards. It requires another $12.7 million annually afterwards to sustain the physical condition of the assets, in addition to its current annual capital redevelopment budget of $1.3 million.

Implications and risks

The Ministry risks not meeting its program objectives or not meeting them cost-effectively.

1.1.2 Contract management

Recommendation

Contract management system needs improvement

We recommend that the Ministry of Community Development improve its system for selecting private operators to run provincially-owned parks and for monitoring contract performance.

Criteria

The Ministry should:

- use requests for proposal and open competition, and select operators based on criteria and the quality of the proposal
- monitor performance to ensure operators are in compliance with the terms of their agreements and that standards are being followed consistently throughout the province

Findings

We found that:

Criteria not used to select operators

- for the 20 contracts we examined, the Ministry did not consistently use the criteria to select operators.

Monitoring needs improvement

- the Ministry does not ensure that operators are complying with the terms and conditions of the agreements. For example, the Ministry could not provide us with evidence that it conducted site inspections, that it always reimbursed repair and upgrade costs in accordance with the agreements, and that operators were remitting all provincial levy funds they collect for the province.

Standards not applied consistently

- the Ministry's area offices are inconsistent in monitoring and enforcing operator compliance with standards, such as insurance and safety requirements.

Implications and risks

There is a risk that private operators are not adhering to the terms and conditions in the contracts. The Ministry may not apply standards consistently across the province. As a result, the quality of services may decline and the condition of the parks could deteriorate.

2. Financial statement audits

2.1 Reservations of opinion

Some transactions not recorded in Ministry financial statements

Our auditor's reports on the financial statements of the Ministry, Department and some of the Provincial agencies contain reservations of opinion because the Ministry's financial statements depart from Canadian generally accepted accounting principles (GAAP). The Ministry is required to follow corporate government accounting policies established by the Ministry of Finance, which do not always conform to GAAP. The main departures from GAAP are:

- the Ministry has not included the revenues, expenses and surpluses for the cultural facilities that are operated with the assistance of volunteer societies. We estimate that the Ministry's revenues, expenses and net assets are understated by $4.3, $3.5 and $9.0 million respectively—see section 2.2.
- the Ministry understates capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Our auditor's report on the Ministry financial statements also contains an information paragraph reporting that expenses include payments made by the Persons with Developmental Disabilities Boards for services to individuals whose disability did not meet the definition of a developmental disability, as defined in the legislation.

2.2 Excluded operations

Recommendation No. 9

We again recommend that the Ministry of Community Development record in its financial statements all revenues, expenses and surpluses generated through the operation of provincially-owned facilities (2002—No. 11).

Background and criteria

We made this recommendation in our *Annual Report* (2002—No. 11).

The Ministry should account for the revenues generated from the operation of provincially-owned facilities and for the use of those resources. To do so, the Ministry needs to record all revenues and expenses related to the operations of the facilities. Expenditures for the facilities should be subject to government budgetary processes.

Findings

Incomplete financial statements

Progress is not satisfactory. The government has responded that the matter is under review. However, although the Ministry has had an initial meeting with the Ministry of Finance to review the matter, the Ministry of Community Development has taken no further action. The Ministry has not recorded in its financial statements parking and other revenues, expenses and surpluses related to the operation of the Northern Alberta Jubilee Auditorium and the Southern Alberta Jubilee Auditorium. Revenues of approximately $4 million and expenses of approximately $3 million per year have not been recorded since fiscal year 1998.

Implications and risks

Transactions not approved

Some of the Ministry's transactions are not recorded in its financial statements. As a result, the financial statements are incomplete, which can misinform decision-making. In addition, the transactions are not approved by the Legislative Assembly.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

Payments to health authorities not disclosed

Our auditor's report on the financial statements of the Persons with Developmental Disabilities South Alberta Board had a reservation of opinion for not disclosing payments totalling $4.6 million to two health authorities.

Economic Development

Summary: what we found in our audits

1. **Systems**

   1.1 The Ministry needs to improve:

   - the description of the results to be achieved by each core business in its business plan and include performance measures that more clearly demonstrate these results—see page 89.
   - the discussion of significant environmental factors and risks in its business plan—see page 89.
   - its guidance for operational planning—see page 90.

   1.2 The Ministry needs to accelerate implementation of its performance measurement framework and improve its internal reporting process—see page 91.

   1.3 The Ministry needs to improve implementation of its performance management system—see page 91.

2. **Financial statements**
   Our auditor's report for the Ministry's financial statements is unqualified.

3. **Specified auditing procedures**
   We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 92.

Overview of the Ministry

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:

- provide strategic policy and planning input for Alberta's economic development
- facilitate industry growth, trade, and investment
- market experiences and develop opportunities

The Ministry works closely with the Alberta Economic Development Authority, the Strategic Tourism Marketing Council and the Travel Alberta Secretariat to coordinate private sector input.

Ministry spent $55 million

In 2002–2003, the Ministry spent $55 million. The following programs are the largest costs of the Ministry:

	(million of dollars)
Positioning and promoting	25
Strategic intelligence	22

Ministry received $14 million

The Ministry had revenue of $14.3 million, of which $14.1 million came from an internal government transfer from the Lottery Fund.

For more detail on the Ministry, visit its website at www.alberta-canada.com.

Scope: what we did in our audits

1. We reviewed the *Managing for Results* systems of the Ministry (business planning, performance information, and human resource management), to determine if cross-ministry recommendations were implemented and identify examples of good practices.
2. We audited the financial statements of the Ministry for year ended March 31, 2003.
3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Systems findings—*Managing for Results*

Context

The Ministry's *Managing for Results* systems partially met our criteria. We made nine recommendations to help the Ministry obtain more value from these processes. Rather than presenting each recommendation here, followed by the background, criteria, findings, and implications and risks, we have summarized the recommendations in the findings section below. In a detailed report to the Ministry, we elaborated on these recommendations and on the good practices we saw.

Past recommendation to implement business processes across all ministries

The government's business processes require management to: identify desired results, state them in plans, and manage to achieve them; measure actual results; and report actual results against stated desired results. These processes impact business planning, performance measurement and reporting, and human resource management. We refer to these processes as *Managing for Results*.

We have examined the implementation of the government's *Managing for Results* processes over several years and have made recommendations to help government in gaining full value from these processes. We now are looking at the *Managing for Results* processes on a ministry-by-ministry basis. This year, we looked at Economic Development.

As part of the audit of *Managing for Results* systems we agreed to report good practices we saw. We believe that this will help other government managers learn of alternatives, as they grapple with similar challenges that gave rise to the practices noted.

Criteria

We used an extensive set of criteria that we developed through consultation with government management. They can be summarized as:

- business plans should effectively communicate to the Legislative Assembly results expected with resources provided to each core business, and how these will be achieved.
- performance measures in the plan should assist the Legislative Assembly's assessment of the successful achievement of the plan.
- annual reports should provide sufficient appropriate information to assist the Legislative Assembly in assessing performance against plan.
- internal planning and reporting processes should support plan development and implementation.

The business plan, performance report, and underlying systems should help management achieve desired results and legislators make informed funding decisions.

1.1 Business plans and planning process

1.1.1 Defining and assessing core businesses

Ministry's business plan and planning process exhibit many good features

The Economic Development *2003–2006 Business Plan* exhibits some features of a good business plan. Also, the Ministry employs the following good practices in its plan and planning processes.

- All entities of the Ministry are included in its consolidated business plan. The plan describes the core businesses, and the actions the Ministry is taking to support specific goals in the government business plan and the cross-ministry initiatives. The strategies under each goal encompass the full range of activities of the Ministry. Also, the plan describes the initiatives that will be undertaken by the Ministry's five corporate services areas to ensure achievement of goals.
- A comprehensive environmental scan process identified critical factors that could impact the Ministry's ability to achieve its goals. An assessment of these factors helped the Ministry establish its strategic priorities and its strategies, two required components for ministry business plans.
- A longer-term strategic plan for Alberta's economic development, the Strategic Economic Development Framework, was developed to both guide the Ministry's business plan and government's economic development policies.
- An assessment of internal capabilities identified areas needing improvement. A detailed "change process," called the Strategic Direction Initiative, employed Ministry-wide teams to lead these improvements.
- The Executive Team directed the planning process and developed the strategic priorities at an annual planning retreat. Staff participated in the development of the business plan at monthly division/branch management meetings. Industry provided input through the Alberta Economic Development Authority, the Strategic Tourism Marketing Council, and the Agri-Food Food Industry Advisory Working Group.
- Industry-specific sector teams provided an opportunity for staff, industry representatives and other ministries to jointly contribute to the plan.
- Development of the budget was integrated with the business plan. The Ministry's strategic priorities, objectives and strategies identified in its business plan, formed the basis for budget decisions. The focus of the Ministry's financial plan was the successful implementation of the business plan.

Recommendation No. 10

We recommend that the Ministry of Economic Development revise its business plan to clearly demonstrate the desired results each core business is to achieve, and ensure its performance measures demonstrate the Ministry's contribution to results.

No linkage between core businesses and goals

The *Economic Development 2003–2006 Business Plan* does not:

- clearly demonstrate the results to be achieved by each core business. There is no linkage between the core businesses and goals in the business plan.
- state performance measures, in some cases, that focus on the Ministry's contribution to results to be achieved by each of its core businesses.

If the Ministry were to state goals in terms of results to be achieved by each core business, and to improve related performance measures, users of the plan and the annual report will be able to more fully understand the Ministry's performance and its contribution to ministry goals.

1.1.2 Discussion of environmental factors and risk

Recommendation

We recommend that the Ministry of Economic Development expand its business plan discussion of significant environmental factors and risks, including setting out their relationship to the strategic priorities stated in the plan.

Inadequate discussion of risk and factors affecting plan

The Ministry has developed comprehensive environmental scanning and strategic planning processes. We found, however, that the *Economic Development 2003–2006 Business Plan* did not adequately discuss risk and key external and internal factors that may affect accomplishment of business plan goals, and how the strategic priorities in the plan will respond to those factors and risks.

Improvements in the discussion of trends in the environment in which the Ministry operates, and how they affect the strategic priorities of the Ministry, will help users of the plan gain a better understanding of the rational for these strategic priorities. Discussion of risk will help users to understand the challenges facing the Ministry in successfully implementing its plan.

1.1.3 Implementing and monitoring

Progress with operational planning

The Ministry has made considerable progress in developing a sound operational planning system, necessary for effective implementation of the Ministry business plan.

- The Ministry required the development of operational plans by all divisions/branches as part of managing the budget. The plans covered all operational components. Operational plan projects were prioritized and aligned with Ministry plan strategies.
- The operational plans informed decision makers about resource allocation. The plans effectively aligned resources with business plan strategies, thus ensuring that budget decisions were made in the context of the business plan.
- An innovative budget management process, called the Dynamic Budget Allocation Concept, provided flexibility to fund high priority initiatives as they emerge, and linked business plan and budget priorities to the operational planning process.

Recommendation

We recommend that the Ministry of Economic Development streamline its operational planning process and improve guidance on operational plans provided to divisions/branches.

Missing components in operational plans

The operational plans were not required to include a number of key components, such as performance measures, human resource requirements, milestone dates and assignment of responsibilities. As a result, some branches developed other internal plans to supplement or replace the operational plans.

Use of multiple plans and plan formats can be inherently inefficient and increases the risk of confusion among staff. The Ministry needs to build on the sound basis it currently has in place to establish a comprehensive and consistent system that effectively implements the business plan and provides a mechanism for monitoring and reporting on results.

1.2 Internal performance measurement and reporting

As with other government ministries, Economic Development releases its business plan at the start of a year and then reports against it through its annual report after year-end. However, to accomplish its plan, it must translate it into internal plans and monitor achievements. The Ministry has established a process called *performance measurement framework* to develop performance measures for the ongoing assessment and reporting of progress.

We consider the Ministry's performance measurement framework process to be a good practice. The framework uses tools such as logic models to describe programs in terms of inputs, activities, and immediate, intermediate and end outcomes, and to define the performance measures to be used at each of these points. The framework also includes processes to report on these performance measures.

Recommendation

We recommend that the Ministry of Economic Development accelerate the implementation of its internal performance measurement framework for each division and branch, including developing logic models or similar tools, and improve its internal reporting process.

Although several of the Ministry's divisions/branches and cross-ministry teams have begun to develop frameworks, implementation of the framework has been slow.

Logic model process will assist in developing appropriate measures of performance

Use of tools such as logic models helps the Ministry clarify its goals, activities, outputs and immediate, intermediate and end outcomes, and assists in the development or confirmation of appropriate performance measures, both at the Ministry business plan and the operational plan levels.

Implementation of the framework and improvement in internal reporting of results will assist the Ministry to monitor progress toward achieving goals, and to take corrective action. Also, it will provide a sound basis for internal reporting.

1.3 Human resource processes

Recommendation

We recommend that the Ministry of Economic Development evaluate the implementation of its performance management system to improve adherence to program guidelines.

Human resource management systems well designed but implementation should be improved

The Ministry's human resource management systems are well designed.

The human resource plan is linked to the business plan and the government's Corporate Human Resource Development Strategy. The Ministry has promoted leadership development by defining leadership competencies and delivering accompanying workshops.

The Ministry performance management program is well-designed and provides for appropriate direction on the completion of employee plans in terms of the Ministry goals. The guidelines for the program are comprehensive and include a work plan, learning plan, feedback reports, and direction on how to complete each component.

However, the system has not been implemented consistently across the Ministry or monitored to determine adherence to the guidelines. Documentation of the learning plans and feedback records could be improved to support a direct link to the allocation of salary increases and achievement bonuses, and to employee development activities.

The benefits of sound human resource systems will only be realized through complete implementation.

Implications and risks

Full value of the Ministry's business plan not yet realized

The Ministry business plan may not be fully achieved unless, and until, the Ministry's *Managing for Results* systems are more effectively implemented.

2. Financial statements

Our auditor's report for the Ministry's financial statements has an unqualified opinion.

3. Specified auditing procedures

We found an exception when we completed the specified auditing procedures on one of the performance measures included in the Ministry's annual report. The exception was because we could not test the procedures used to compile the data used to report on that performance measure. Therefore, we were unable to complete all of our specified auditing procedures for that measure.

Energy

Summary: what we found in our audits

1. **Systems audits**

Timely program reviews

1.1 The Department needs to assess whether its royalty reduction programs are achieving their intended objectives—see page 95.

Measure program effectiveness

1.2 The Department needs to identify the objectives of the Alberta Royalty Tax Credit program and develop measures to determine the effectiveness of this program—see page 96.

1.3 The Department should improve the communication of its needs for assurance on well and production data to the Alberta Energy and Utilities Board (EUB) and evaluate the extent of audit work done by the EUB in relation to the Department's needs—see page 97.

2. **Financial statements**

One reservation of opinion

We have one reservation of opinion on the financial statements of the Ministry and the Department—see page 99.

3. **Specified auditing procedures**

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**

We issued unqualified auditor's reports on the financial statements of the Alberta Petroleum and Marketing Commission (the Commission) and the EUB.

Overview of the Ministry

Six core businesses

The Ministry's 2002–2005 business plan identifies eight core businesses:

- secure Albertans' share and benefits from energy and mineral resource development
- ensure Alberta's energy and mineral resources remain competitive, and attractive to investment and development

- increase Albertans awareness of energy and mineral resource development and related policies, and the significance of these resources to Alberta's economy
- ensure Alberta consumers have a choice of reliable and competitively priced energy
- adjudicate matters related to utilities and energy within Alberta
- process and rules on new applications for energy and utilities activities or amending existing approvals
- maintain a rigorous surveillance and enforcement process for energy and utility facilities
- collect, store, analyze, appraise and disseminate information

The Department, the Board and Commission

The Ministry consists of the Department of Energy, the EUB and the Commission.

Ministry received $7.4 billion

The Ministry collected over $7.4 billion in revenue in 2002–2003, from the following sources:

	(in millions)
Non-renewable resource revenue	7,130
Freehold mineral rights tax	202
Industry levies and licenses	79
Other revenue	12

Ministry spent $171 million

The Ministry spent $171 million in 2002–2003.

For more details on the Ministry, visit its website at www.energy.gov.ab.ca.

Scope: what we did in our audits

Systems

1. We examined the objectives, measures and reporting for the Alberta Royalty Tax Credit (ARTC) Program and royalty reduction programs. We also examined the system used by the Department to determine the amount of audit work it wants EUB to do on well and production data.

Financial statement audits

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2003. We also followed up recommendations made last year.

Specified Procedures

3. We completed specified auditing procedures on the performance measures in the Ministry's annual report.

Additional work

4. We performed the following work on entities that report to the Minister:
   - We audited the financial statements of the Alberta Petroleum and Marketing Commission for the year ended December 31, 2002. We also audited the financial statements of the EUB for the year ended March 31, 2003.
   - We also followed up on last year's recommendation that the EUB develop an audit strategy that meets the needs of various stakeholders for well and production data reported by industry.

Findings and recommendations

1. Systems

1.1 Royalty reduction programs

Recommendation

We recommend that the Department of Energy assess whether the royalty reduction programs are achieving their intended objectives.

Background

The Department provides four oil and four gas royalty reduction programs that reduce Crown royalties to encourage industry to produce from wells that otherwise would not be economically productive. For the year ended March 31, 2003, these programs reduced Crown royalties by $ 359 million (2002—$306 million).

Criteria

To make effective decisions, management needs:

- clear program objectives
- timely and reliable information on the results of the programs against their objectives

Findings

Four programs need to be reviewed

The Department has defined the objectives of these programs. However, the Department has not completed a review of the results of the following programs against their objectives:

- the low productivity and reactivated well programs have not been reviewed since their inception in 1992
- the Department has not finalized its 1999 reviews of the horizontal re-entry and deep gas holiday programs

Department study concluded royalty reductions were not required

In 1999, the Department performed a study indicating the horizontal re-entry program should be terminated. The Department concluded the Crown's share of the economic rent was 12%, well below the Department's target of 50–75%. In September 2000, the Department informed industry of its intent to terminate the program effective January 31, 2001. Industry expressed concerns about the cost assumptions in the Department's review. As a result, the Department decided to complete another review before deciding the future of the program. The Department plans to complete this review by February 2004.

The Department also reviewed the deep gas program in 1999 but this review has not been finalized.

Implications and risks

Without timely reviews, the Department cannot assess whether program objectives are being met and if royalties need to be adjusted. Timely information assists in resolving any uncertainty about the results of these programs.

1.2 Alberta Royalty Tax Credit (ARTC) program

Recommendation No. 11

We recommend that the Department of Energy document and communicate the objectives of the *Alberta Royalty Tax Credit* program and develop measures to assess whether the program is meeting its objectives.

Background

The *Alberta Royalty Tax Credit* program refunds a portion of the royalties paid to the Province. The refund is available to individuals and corporations to a maximum of $2 million of eligible royalties. The total credits in the 2003 fiscal year were $83 million (2002—$108 million).

ARTC intent changed

The Province implemented the ARTC program in 1974. The original intent of the program was to offset the financial burden to oil and gas companies of changes to federal tax laws, which did not permit the deduction of crown royalties from taxable income. Over the years, the government added additional objectives, including fiscal stability arising from price changes and support for active Alberta based producers.

Alberta Energy, Alberta Revenue and Alberta Finance jointly administer the ARTC program. Alberta Energy has primary responsibility for budgeting, reporting and policy development for this program.

Criteria

To make effective decisions, management needs:

- clear objectives
- relevant and verifiable measures to evaluate the results of the programs
- timely and reliable information on the results of the programs against their objectives

Findings

From 1994 to 2001, the Ministries of Energy and Finance have performed several reviews to define the objectives and measures for the ARTC program.

Measures need to be developed

We found that:

- although various reviews have discussed the objectives of the ARTC, there is no formal documentation or communication of the program objectives
- the Department has not developed measures to assess whether the objectives of the program are being achieved

Implications and risks

Management cannot make effective decisions when program objectives are not clearly defined and performance measures are not established to assess the results of the program.

1.3 Assurance—well and production data

Recommendation

We recommend that the Department of Energy:

- **improve the communication of its needs for assurance on well and production data to the EUB.**
- **evaluate the extent of audit work done on well and production data by the EUB in relation to its needs.**

Background

The Department needs assurance on the completeness and accuracy of well and production data used to determine Crown royalty revenues and develop energy policies.

The Department obtains assurance on well and production data from:

- the audits performed by the Production Audit Group of the EUB, and
- the edit and validation controls in the Petroleum Registry System (the Registry).

One of the major activities of the EUB is to provide assurance on well and production data reported by industry.

Criteria

The Department should have adequate assurance that well and production information reported by industry is complete and accurate.

Findings

In our *2001–2002 Annual Report* (2002—No. 14), we recommended that the EUB's Production Audit Group (Group) develop an audit strategy that meets the needs of key stakeholders. In response to our recommendation, the Group canvassed stakeholders to determine their needs and developed an appropriate audit strategy. The recommendation has been implemented.

The Department is one of the key stakeholders contacted by the Group to obtain an understanding of its needs from the Group's audit activities. However, the Group found it difficult to obtain this information because the Department does not have a consolidated view of what it needs from the audit process. The Group had to contact various business units within the Department to form an overall view of the Department's needs. This process is ad-hoc and time consuming and does not ensure that all risks and needs, from the Department's perspective, are identified and prioritized.

Responsibility for Registry data needs to be determined

Uncertainty also exists as to which organization is responsible for providing assurance on the completeness and accuracy of well and production data on the Registry. Stakeholders, including the Department, rely on the data collected by the Registry. The Registry includes information system controls to assess the completeness and reasonableness of data collected. The Group's mandate does not include the audit and verification of the Registry's controls. The Department should clarify with the EUB who is responsible for assessing the effectiveness of Registry controls.

Department needs to evaluate the adequacy of assurance

The Department does not receive regular information from the Group on the nature and scope of its activities. The Department needs such information from the Group to evaluate if the extent of work done by the Group is sufficient to meet the needs of the department.

Implications and risks

The Department cannot be sure of the completeness and accuracy of well and production data that it uses to calculate Crown royalty revenues. Royalties may be foregone if the data used in royalty calculations is inaccurate.

2. Financial statement audits

2.1 Reservation of opinion on Ministry and Department financial statements

Capital assets are understated

Our auditor's reports on the Department and Ministry financial statements have one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

2.2 Results of royalty reduction programs

The Department implemented our recommendation made last year (2002—No. 12) to disclose its royalty reduction programs in its financial statements.

3. Specified auditing procedures

3.1 Specified auditing procedures

We reported exceptions for three measures in the Ministry Annual Report because there was no survey data available for these measures.

3.2 Performance measures

In our *2001–2002 Annual Report* (2002—No. 13), we recommended that the Ministry of Energy use performance measures that permit consistent evaluation of its performance year to year.

The Department and the EUB have made satisfactory progress in implementing this recommendation. The Department in its 2003–2006 business plan has continued the measures of the current year. The EUB has reduced the number of measures it reports, eliminating eight measures and maintaining six core measures currently reported. We will continue to monitor the Ministry's progress in this area.

4. Other entities that report to the Minister

4.1 Financial statements

We issued unqualified auditor's reports on the financial statements of the EUB and the Commission.

4.2 Well and production data reported by industry

In our *2001–2002 Annual Report* (2002—No. 14), we recommended that the EUB develop an audit strategy for the Production Audit Group that meets the business needs of key stakeholders.

As reported on page 98 of this report, the recommendation has been implemented.

Environment

Summary: what we found in our audits

1. **Systems**
    1.1 The Ministry of Environment should implement a central system to monitor contaminated sites in Alberta—see page 103.

    1.2 The Deputy Minister of Environment, working with the Sustainable Development Coordinating Council, should prepare annual plans and reports and complete the legislative and regulatory regime review to achieve the mandate under *Alberta's Commitment to Sustainable Resource Development*,—see page 105.

2. **Financial statements**
    We have two reservations of opinion and an information paragraph in our auditor's report on the financial statements of the Ministry—see page 107.

3. **Specified auditing procedures**
    We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Five core businesses

The Ministry's 2002–2005 business plan describes five core businesses:

- Environmental Leadership
- Environmental Assurance
- Environmental Stewardship
- Hazard and Risk Management
- Strategic Business Services

Department, Environmental Appeal Board, and DAOS

The Ministry of Environment consists of the Department of Environment and the Environmental Appeal Board. In addition, the Ministry has assigned some of its responsibilities to three delegated administrative organizations: the Beverage Container Management Board, the Alberta Used Oil Management Association, and the Tire Recycling Management Association of Alberta.

Ministry spent $108 million

In 2002–2003, the Ministry spent $108 million. The costs per core business are as follows:

	(millions of dollars)
Environmental Leadership	13
Environmental Assurance	67
Environmental Stewardship	16
Hazard and Risk Management	6
Strategic Business Services	6

Ministry received $3 million

The Ministry received $3 million in 2002–2003 from sources external to the government:

	(millions of dollars)
Fees, Permits and Licenses	2
Other Revenue	1

For more detail on the Ministry, visit its website at www.gov.ab.ca/env.

Scope: what we did in our audits

1. As part of our financial statement audit, we examined the systems that the Ministry uses to track information about contaminated sites in Alberta. We also reviewed the status of the integrated resource management recommendations that we made on page 86 of *our 2000–2001 Annual Report*.
2. We audited the financial statements of the Ministry for the year ended March 31, 2003.
3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Systems

1.1 Contaminated sites information systems

Recommendation No. 12

We recommend that the Ministry of Environment implement an integrated information system to track contaminated sites in Alberta.

Background

A contaminated site is land that:

- contains contamination above the limits allowed by environmental guidelines, and
- poses an unacceptable risk to human health or ecosystems.

Alberta follows the guidelines developed by the Canadian Council of Ministers of the Environment.

Business needs for contaminated site information

The Ministry needs information about contaminated sites for a variety of business reasons. First, under the *Environmental Protection and Enhancement Act,* the Ministry is responsible for regulating contaminated sites throughout the province. The responsibility includes assessing, designating, and approving a remedial action plan for contaminated sites. Second, the Ministry issues approvals on public and private land. New approvals need to consider whether sites are already contaminated. Third, the Ministry follows the principle that polluters pay. It is often a lengthy process to recover contaminated land, so the Ministry must ensure that contaminated sites are managed so that potential adverse effects have been mitigated.

Criteria

The Ministry should have a system in place to manage information about contaminated sites. The system should:

- identify the location and characteristics of contaminated sites; ideally, it will record any monitoring, recovery, or other actions on each site
- be complete, accurate, and timely in its collection of information
- share its information with interested parties
- produce summary reports on contaminated sites in the province

Findings

No integrated system to record summary information

The Ministry has regionalized the delivery of its contaminated sites program. Information about each site is maintained in a hard copy file at the regional or district office. We estimate that more than 5,000 files exist around the province. Staff update the hard copy files with correspondence, site reports, and interview notes. Summary information about each file is maintained on a variety of systems around the province. There is no integrated system that collects information about all contaminated sites in the province.

An example of multiple systems in one region

For example, the Northern Region looks after more than one thousand contaminated site files. It uses three separate automated systems to summarize information in its hard copy files. Staff use the Ministry's corporate automated system, the Environmental Management System (EMS), to track information about contaminated petroleum storage tank (PST) sites. However, staff found it difficult to produce summary data using EMS, so they duplicated information about contaminated site files on Excel spreadsheets. As well, staff follow hundreds of non-PST contaminated site files that are not loaded onto EMS. So in addition to EMS and spreadsheets, the staff have begun to load data into a new automated system acquired solely for the Northern Region office.

No integrated listing of contaminated sites

With contaminated site information dispersed among systems in the three regions, the Ministry cannot easily gather and report information for a province-wide perspective on site contamination. At present, there is no comprehensive Ministry listing of contaminated sites for the province.

EMS could serve as the integrated system

When designing EMS, the Ministry intended to develop a contaminated sites module. However, that module has not been implemented. EMS currently supports the Ministry's approvals and site reclamation business province-wide, so expanding the system to include information on contaminated sites would be a logical extension.

Implications and risks

The Ministry has a variety of business needs for contaminated site information. Making information accessible to those who need it will enhance the management of individual sites. Individual employees with site-specific, accurate information will make better decisions about new approvals. Without a complete, accurate, integrated information system, the Ministry can only summarize or report the status of contaminated site files with considerable manual effort.

1.2 Integrated Resource Management (IRM)

Recommendation No. 13

We recommend that the Deputy Minister of Environment, working with the Sustainable Development Coordinating Council:

- **plan and report against *Alberta's Commitment to Sustainable Resource and Environment Management* annually to Standing Policy Committee; and**
- **complete the legislative and regulatory regime review required by the *Commitment*.**

Background

Commitment sets government policy for IRM

In March 1999, the government published *Alberta's Commitment to Sustainable Resource and Environmental Management*. The *Commitment* outlines the government's integrated resource management initiative for "the wise management of Alberta's natural resources and environment … now and in the future". The *Commitment* states, "strong provincial direction is required to ensure consistency in approach".

SDCC is responsible for *Commitment*

The Sustainable Development Coordinating Council (SDCC) is responsible for implementing the *Commitment*. SDCC is made up of deputy ministers and senior executives from provincial agencies whose entities have a stake in sustainable resource development. The deputy ministers of Environment, Sustainable Resource Development, and Energy co-chair SDCC.

The 1999 Implementation Plan

Also in 1999, SDCC approved an implementation plan that described and allocated tasks to fulfill the strategies outlined in the *Commitment*. Many of the tasks required the efforts of a dedicated group of resources. This dedicated group evolved into the Integrated Resource Management Branch (IRMB) within the Department of Environment.

Results of our 2000–2001 systems audit

In 2000–2001, we performed a systems audit that focused primarily on IRMB. We recommended that IRMB strengthen its planning, monitoring, and reporting and implement performance measurement and reporting.

Reorganization of the IRM initiative

Since our 2000–2001 work, the IRM initiative has been reorganized. SDCC is still responsible overall, but many of the supporting groups, such as the IRM Implementation Committee, have been disbanded. IRMB is now a permanent branch in the Ministry of Environment. IRMB's main focus is to support the creation of regional strategies for integrated resource management.

Criteria

Five audit criteria

For this year's audit, we formulated five groups of audit criteria:

- strong governance for the IRM initiative as a whole
- strong management and accountability within IRMB
- timely completion of regional strategies
- development of performance measures for the IRM initiative
- completion of the undertakings in the Commitment document

Findings

Four groups with satisfactory progress

Two of the five audit criteria (governance and management and accountability within IRMB) were successfully met. As a result, IRMB has successfully implemented the planning, monitoring, and reporting portion of our 2000–2001 recommendation. Two more criteria were being implemented. These are:

- timely completion of regional strategies—IRMB is in the process of developing generic documents to guide the development and implementation of future regional strategies.
- development of performance measures—the suite of IRM outcome measures will form part of the Ministry of Environment's 2003–2004 annual report. Overall, IRMB has made satisfactory progress on IRM performance measures since our 2000–2001 audit.

Progress against the *Commitment* has been slow

However, progress to complete the undertakings in the *Commitment* has not been satisfactory. The government needs to complete the critical outputs outlined in the *Commitment* before the benefits of integrated resource management can be realized. Although the planning horizon for IRM is ten to fifteen years, four years have already passed since the *Commitment* document was released. Momentum to fulfill the *Commitment* needs to be maintained.

Implementation Plan has not been updated; no annual reporting

For the *Commitment* as a whole, the 1999 Implementation Plan has not been updated. As a result, the timing for the *Commitment* deliverables is no longer clear. In addition, SDCC does not report its progress on the *Commitment*, although SDCC's Terms of Reference require annual reporting to the *Standing Policy Committee*.

Importance of legislative and regulatory review

The *Commitment* calls for an "effective and up-to-date legislative and regulatory regime". Ministries approve resource development projects and the provincial landscape changes according to the legislative and regulatory regime. Therefore, legislation and regulation are key to delivering IRM objectives. One of the *Commitment*'s strategies is to review "current policies, guidelines, standards, and other guidance documents" of the ministries that play a key role in integrated resource management.

Stakeholders support the review

Stakeholders express the view that existing legislation and regulation contain overlap and duplication that can thwart the IRM initiative. They have also highlighted the importance of the legislative and regulatory review. For example, the final recommendations of the Regional Steering Group for the Northern East Slopes regional strategy highlight the need to complete the legislative and regulatory review. While work has begun on the review, after four years it appears to be making slow progress. We understand that the results of the legislative and regulatory review to date are under consideration by the government.

Implications and risks

To realize the benefits of IRM in Alberta, the undertakings in the *Commitment* must be implemented. Without annual planning and reporting against the *Commitment*,

- accountability for the IRM initiative is diminished
- key stakeholders' awareness of and interest in IRM may erode
- support decreases for the public service as they design and implement integrated and innovative solutions

2. Financial statement audit

We audited the financial statements of the Ministry for the year ended March 31, 2003.

Liabilities not disclosed

Our auditor's report on the financial statements of the Ministry contains a reservation of opinion on site restoration costs. Management has identified sites that are owned by the government and for which the Ministry is responsible for site restoration. The cost to restore these sites is estimated to be $14.7 million. Following corporate government accounting policy for these identified sites, no liability has been recorded. As a result, liabilities are understated and net assets overstated by $14.7 million. In addition, there are an unknown number of other sites not owned by the government for which the Ministry may be responsible for site restoration. The financial statements do not disclose a liability for the restoration of the sites not owned by the government.

Capital assets are understated

Our auditor's report also contains a reservation of opinion because the Ministry understates capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Swan Hills reporting uncertainty

In addition to the reservations of opinion, our auditor's report again contained an information paragraph relating to the Swan Hills waste treatment plant. As in 2001–2002, we reported that the Ministry did not recognize the provisions for cell monitoring and remediation and for future removal and site restoration. Due to government restructuring in March 2001, the responsibility for these provisions and expenses is now shared. In the current year, these provisions are recognized in the financial statements of the Ministry of Sustainable Resource Development. The expenses related to these provisions are recognized in both the Ministries of Environment and Sustainable Resource Development. In our opinion, it is uncertain in which ministry's financial statements these provisions and associated expenses should be recognized.

3. Specified auditing procedures

We found no major problems when we completed specified auditing procedures on the Ministry's performance measures, so we do not report any findings here.

Executive Council

Summary: what we found in our audits

1. **Systems**
   The government is making progress in improving the governance and accountability for Academic Health Centres but further work is required—see page 110.

2. **Financial statements**
   We have one reservation of opinion on the Ministry's financial statements because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. **Specified auditing procedures**
   We found no exceptions when we applied specified auditing procedures to the Ministry's performance measures.

Overview of the Ministry

Office of the Premier and Public Affairs Bureau

The Ministry coordinates the implementation and communication of the government's priorities. The Ministry consists of the Office of the Premier and Executive Council and the Public Affairs Bureau. The core businesses of the Ministry include:

- providing support to the Premier and Executive Council
- helping government ministries communicate with Albertans
- providing Albertans with two-way access to government
- publishing and selling Alberta's laws and other materials

In 2002–2003, the Ministry spent $14.9 million. Revenues of the Ministry, mainly from the Queen's Printer Bookstores, were $1.9 million.

Further information on the Ministry can be obtained from www.gov.ab.ca and www.gov.ab.ca/pab.

Scope: what we did in our audits

1. We followed up on the government's progress in improving the governance and accountability of Academic Health Centres.

2. We audited the financial statements of the Ministry for the year ended March 31, 2003.

3. We applied specified auditing procedures to the performance measures in the Ministry's 2002–2003 annual report.

Findings and recommendations

1. Council of Academic Health Centres of Alberta—governance and accountability

Background

Academic health is a partnership

Academic health centres are partnerships of medical faculties, health authorities, and academic physicians. They educate health professionals, conduct health sciences research, and provide specialized clinical services. Academic health is extremely complex. Responsibility is shared among the universities of Alberta and Calgary, their faculties of medicine, the Calgary and Capital Regional Health Authorities (RHAs) and the Alberta Cancer Board. The Council of Academic Health Centres of Alberta (the Council) consists of representatives of these stakeholders. Funding is provided through multiple sources including government departments and agencies, other governments and the private sector.

In 2001 (2001—No. 9), we recommended that Executive Council assign responsibility for implementation of our prior recommendations (1999—Nos. 18 and 19, and 2000—No. 39) that:

- those who manage and fund academic health activities acknowledge the full scope and magnitude of those activities and the consequences for the accountability of academic health centres
- the entity or entities responsible for academic health, and their mandates, roles, and accountabilities be clearly defined and, on this basis, the appropriate organization and governance structure be established

Good progress last year

Last year, we reported that the government had implemented our 2001 recommendation and made good progress on the recommendations we made in 1999 and 2000. The government had prepared a report on academic health funding for 2000–2001 and initiated a pilot alternate funding plan for the Department of Medicine at the University of Alberta (U of A). The plan included an alternate payment plan for physician remuneration.

Findings

Recommendations being implemented

Progress is satisfactory. The ministries of Health and Wellness and Learning have made substantial progress in developing alternative funding plans. In addition to the U of A Department of Medicine plan, plans were implemented for the departments of Paediatrics at the Universities of Alberta and Calgary and for Neurosurgery province-wide. The U of A Department of Medicine produced its first accountability report. The ministries will evaluate these pilot plans to determine whether to extend them to other departments. They also recognize the need to establish the appropriate governance structure first.

The ministries have begun to tackle the governance issue. They are considering proposals for a structure headed by a Deputy Ministers' Committee on Academic Medicine and including a reconstituted Council. A plan exists to conduct research into governance models. Work continues on performance measures developed as part of the alternate funding plans.

The ministries are also developing an agreement with the two universities and two RHAs to prepare a joint strategic plan for academic medicine by early 2005. The plan would cover all sources of funds, goals and objectives for academic medicine, allocation of resources, deliverables, accountabilities, performance measures and governance.

The universities and RHAs are continuing to prepare an annual report on the sources, types and amounts of funding for the academic health centres.

We will continue to examine the implementation of our recommendations. Because of the time it will take to consider and act on the evaluations of the pilot alternate funding plans, resolve the governance issue, and develop and implement the strategic plan, we plan to continuously monitor this process and report again in 2006.

Finance

Summary: what we found in our audits

1. **Systems**
   The Department has made progress in reporting the actual and expected results of programs within the tax collection system but further work is required—see page 117.

2. **Financial statements**
   We have one reservation of opinion on the financial statements of both the Ministry of Finance and the Department of Finance—see page 118.

3. **Specified auditing procedures**
   We found no exceptions when we applied specified auditing procedures to the Ministry's key and supplementary performance measures.

4. **Other entities that report to the Minister**

Three recommendations

4.1 Systems—Alberta Treasury Branches (ATB)
ATB should provide support for loan concentration limits (see page 118), ensure lending practices comply with corporate lending policies (see page 119), and implement an enterprise risk management framework (see page 121).

4.2 Financial Statements

No reservations of opinion for ATB and its subsidiaries

4.2.1 ATB—we issued auditor's opinions without reservations for all of the financial statement and compliance audits we completed during the year for ATB and its subsidiaries listed in 4.2.1 of Scope.

No reservations of opinion for other entities

4.2.2 Other entities—we issued auditor's opinions without reservations for all of the financial statement audits we completed during the year for the entities listed in section 4.2.2 of Scope.

Overview of the Ministry

The Ministry's 2002–2005 business plan describes five core businesses:

Five core businesses

- establish the government's fiscal framework and facilitate sound fiscal planning and decision-making
- foster an effective accountability framework for the Province
- manage the government's financial assets and liabilities prudently
- foster access by government organizations to comprehensive and competitive financial products and services and pension plans
- administer the pension plan regulatory framework to reduce the risk of financial loss to pension plan members, depositors and policyholders

Department and entities

The Ministry consists of the Department and the entities listed in section 4 of Scope, including Alberta Treasury Branches (ATB).

ATB

ATB, operating as ATB Financial, is a Provincial agency that is accountable through its Board of Directors to the Minister of Finance. ATB provides a full range of financial services including accepting deposits and extending loans to Albertans and businesses. ATB also offers mutual funds, bonds and equity securities.

Ministry spent $993 million

In 2002–2003, the Ministry expenses, excluding ATB, were $993 million. The largest expense was $402 million for debt servicing costs.

Ministry received $1,185 million

The Ministry's revenues were $1,185 million. This includes $199 million net income from ATB, $529 million from investment income and $19 million from fees, permits and licences.

Websites for both Ministry and ATB

For more information on the Ministry and its programs, see its website at www.finance.gov.ab.ca. For more information on ATB, see its website at www.atb.com.

Scope: what we did in our audits

1. We followed up on our previous recommendations to improve financial reporting and accountability for foregone revenue.

2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2003.

3. We applied specified auditing procedures to the key and supplementary performance measures in the Ministry's 2002–2003 annual report.

4. Other entities that report to the Minister

4.1 Systems—Alberta Treasury Branches (ATB)

We examined two areas: the determination of loan portfolio concentration limits and compliance with lending policies. We also followed-up on our prior years' recommendations regarding enterprise risk management, business resumption planning, internal controls and outsourcing arrangements.

4.2 Financial statement audits

4.2.1 ATB

We audited the financial statements of ATB for the year ended March 31, 2003. We also completed review engagements for ATB's quarterly financial statements. In addition, we audited:

ATB's Management Pension Plan for the year ended December 31, 2002

ATB Investment Services Inc., a subsidiary of ATB:
- financial statements for the year ended March 31, 2003
- compliance with applicable sections of National Instrument 81-102 as required by the Alberta Securities Commission for the period ended March 31, 2003
- Mutual Fund Dealers Association of Canada's Financial Questionnaire and Report as at March 31, 2003

ATB Investment Management Inc., a new subsidiary of ATB:
- opening balance sheet as at August 31, 2002
- financial statements for the period ended March 31, 2003

ATB Securities Inc., a new subsidiary of ATB:
- opening balance sheet as at February 14, 2003
- Investment Dealers Association of Canada's Joint Regulatory Financial Questionnaire and Report as at February 25, 2003

4.2.2 Other entities

Other entities included in Ministry

We audited the following entities that are consolidated with the Ministry:

For the year ended March 31, 2003:
- N.A. Properties (1994) Ltd.
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund

For the year ended December 31, 2002:
- Alberta Municipal Financing Corporation (now Alberta Capital Financing Authority)
- The Alberta Government Telephones Commission
- Credit Union Deposit Guarantee Corporation
- S C Financial Ltd. (ceased operations October 31, 2002)
- Alberta Pensions Administration Corporation. We also completed review engagements for each of the Corporation's quarterly financial statements.

In addition, we examined the financial statements, management letters, and audit files for two Crown-controlled corporations that are consolidated with the Ministry. A public accounting firm audits these entities. They are:
- Alberta Insurance Council—for the year ended December 31, 2002
- Gainers Inc.—or the year ended September 30, 2002

Entities not consolidated in the Ministry financial statements

We also audited the financial statements of the following entities that are not consolidated with the Ministry:

For the year ended March 31, 2003:
- Consolidated Cash Investment Trust Fund
- Provincial Judges and Masters in Chambers (Registered) Pension Plan

For the year ended December 31, 2002:
- Local Authorities Pension Plan
- Management Employees Pension Plan
- Public Service Management (Closed Membership) Pension Plan
- Public Service Pension Plan
- Special Forces Pension Plan
- Supplementary Retirement Plan for Public Service Managers

Findings and recommendations

1. Systems findings

1.1 Accountability for foregone revenue

We previously recommended that the Department of Finance identify for the Legislative Assembly the expected and actual results from the social and economic development programs within the tax collection systems (2001—No. 48). Management did not accept this recommendation but agreed to review it and consider alternatives for possible implementation in Budget 2003.

Satisfactory progress on reporting costs of tax credits

Management has made satisfactory progress in implementing this recommendation. In Budget 2003, the Department disclosed the non-refundable personal income tax credits, such as the basic personal exemption, incorporated in the personal income tax system and reported the objectives and expected cost of the refundable Alberta Family Employment Tax Credit program. The Department has also indicated that it will consider the need for accountability information for other refundable tax credits—those where a refund cheque is issued to an individual or corporation—based on the materiality of the expenditures. We will assess the Department's position on this matter in the next year.

1.2 Strategies to improve financial reporting

Need to improve financial reporting

We previously recommended that the Department of Finance promote the benefits of quality financial reporting throughout the year (2001—No. 46). Last year, the Department suggested to ministries that they consider the feasibility and value of preparing interim financial statements to improve the financial reporting process.

Recommendation implemented

The Department and ministries have implemented our recommendation by significantly improving the financial reporting process for the year ended March 31, 2003. Ministries prepared financial statements at December 31, 2002, which we examined during our interim audits. During the year, we worked with ministries to resolve potential significant accounting issues before the preparation of draft financial statements for the year ended March 31, 2003. Ministries prepared their financial statements in accordance with the Department's year-end timelines and we were able to substantially complete our audits of all ministries by the May 23, 2003 deadline. There were few adjustments required to the draft financial statements during the year-end audit process and most involved issues that were identified early in the year.

2. Financial statement audits

One reservation of opinion

Our auditor's reports on the financial statements of the Ministry and the Department have one reservation of opinion because the financial statements understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

No exceptions noted in our report

We found no exceptions when we applied specified auditing procedures to the Ministry's key and supplementary performance measures.

4. Other entities that report to the Minister

4.1 Systems audits at ATB

4.1.1 Loan concentration limits

Recommendation No. 14

We recommend that Alberta Treasury Branches provide support for its loan portfolio industry concentration limits.

Background

ATB revised its loan portfolio concentration limits

ATB manages credit risk by establishing limits on the dollar value of its loans that can be made to each of the major industries in Alberta. Management and ATB's Credit Policy and Risk Management Committee of the Board (CPRM) periodically review these concentration limits to ensure that the credit risk is acceptable. This year, management conducted a research project using guiding principles developed in the United States by the financial services industry's Risk Management Association (RMA). Management then made recommendations to the CPRM to revise ATB's loan concentration limits.

Criteria

Using the RMA guiding principles, management should consider the following when setting loan portfolio concentrations:

- ATB's existing market share and growth strategy
- ATB's loan loss experience and profit by industry
- the general risk and size of ATB's current loans to businesses within the industries
- the economic volatility of the different industries
- the drop in ATB's earnings or capital that management deems acceptable if an industry develops unexpected problems
- the relative size of each industry's participation in the economy
- other financial institutions' concentration limits

Findings

Lack of support for the revised limits

We could not assess whether the revised concentration limits were based on these criteria because we could not find support for management's recommendations or the final CPRM decisions. Management applied judgment to the results of the research project to develop recommendations for the revised limits because of their concerns over the accuracy and completeness of data used in the research. As a result, for six of the thirteen industries included in management's analysis, the new concentration limits conflicted with the research project's results. For example, the research supported decreasing both the energy and real estate industry loan concentration limits; however, management recommended, and the CPRM approved, an increase to both of these limits.

Implications and risks

Disproportionate lending can lead to significant financial losses

ATB has ranked credit portfolio concentrations as one of its top risks because diversification is key to managing credit risk. Disproportionate lending to certain industry sectors can lead to significant financial losses if those industries experience financial difficulty. It is important that ATB demonstrate that its loan concentration limits follow general industry standards or justify any variances.

4.1.2 Lending policy compliance

Recommendation No. 15

We recommend that Alberta Treasury Branches ensure its lenders comply with corporate lending policies.

Background

ATB has policies to manage credit risk

ATB has developed lending policies to manage credit risk. ATB has also established single borrower lending limits that are based on the borrower's industry and credit rating. ATB's lenders, which include staff and the CPRM members, are to follow these policies when issuing new loans and managing existing loans.

Criteria

For each borrower, ATB's lending policies should require lenders to:

- perform the financial ratio analysis to measure the client's financial condition and capacity to make payments
- review the collateral to appraise the security for the loan
- conduct a character analysis to measure past borrowing experience
- complete an economic review of the relevant industry

- comply with ATB's internal lending limits or provide authorization and justification for exceptions

The CPRM and management should monitor lending practices to ensure compliance with ATB's lending policies.

Findings

Credit policies are not being followed

We found several instances of loans to customers that did not comply with ATB's lending policies. The more significant and recurrent exceptions are included here:

Exceptions to the lending limits were not explained

- We found 11 loans totalling $530 million that were approved by the CPRM and exceeded ATB's single borrower lending limits by $212 million in total. While ATB's policies allow for exceptions, "the underlying rationale…must be comprehensively justified." None of the 11 loan files explained why the lending limits were exceeded.

Income verification is not on file

- There is a general lack of evidence in the files that lenders verified the borrower's employment and income. Of the 29 personal and mortgage loan files we reviewed, 20 did not contain this information. Income is the main variable in assessing the ability of potential borrowers to service their loans.

Financial ratios are often incorrect

- Lenders do not consistently follow the guidance in the lending policies that describes how financial ratios should be calculated. While miscalculations are expected to occur occasionally, we frequently noted errors in the computation of financial ratios used to assess the financial condition of ATB's customers. Our observation is consistent with that reported by Internal Audit during their extensive credit audits.

Implications and risks

Failure to follow established lending policies increases ATB's credit risk

The lenders' failure to follow established lending policies increases ATB's credit risk. Exceeding single borrower lending limits increases ATB's exposure to losses if those borrowers experience financial difficulty. Inaccurate financial ratios or improper income verification can lead lenders to make incorrect assessments of the credit worthiness of customers, and result in improper lending decisions.

4.1.3 Risk management

Recommendation No. 16

We again recommend that Alberta Treasury Branches implement an enterprise risk management framework to assist in managing significant risks (2002—No. 16).

Background

Risk management contributes to success

An enterprise risk management (ERM) framework contributes to an organization's success by encouraging management to take a proactive and high-level approach to managing risks. ATB has committed to developing a comprehensive ERM framework to effectively manage its exposure to operational, credit and market risk.

Criteria

Implementing an ERM framework involves:

1. identifying and prioritizing risks
2. developing strategies to manage risks
3. defining and assessing the existing risk tolerance
4. training staff
5. monitoring results
6. reporting activities to the Board

Findings

ATB has not made satisfactory progress

ATB has not made satisfactory progress implementing this recommendation that we reported last year (2002—No. 16) and that we first made to management in May 2000. Last year, management committed to developing an ERM framework by March 2003; however, the framework is not yet complete.

ATB has much work left to do

ATB has taken an important first step by identifying and prioritizing its most significant business risks. However, ATB has not met the remaining criteria outlined above. Further work is required to develop mitigating strategies or to identify where effective processes and controls already exist. During this stage, ATB's risk tolerance will become more defined as management reviews and prioritizes the strategies and action plans.

Also, ATB should provide periodic training to all staff appropriate to their level of involvement in risk identification and management. Finally, ATB must define how the risk management activities will be reported to the responsible committees of the Board. Once the framework has been developed, management should monitor results and report on the effectiveness of the strategies and controls. Management has committed to completing an ERM framework by the end of March 2004. We will review the progress made during our next audit cycle.

Implications and risks

Risks may not be managed

ATB could incur significant financial losses without an ERM framework in place to manage all significant risks.

4.1.4 Business resumption plan

Background

Business resumption plan provides a controlled response to emergencies

Last year, we recommended that Alberta Treasury Branches complete and test a business resumption plan (BRP) to enable prompt resumption of business in the event of a significant disruption (2002—No. 18). A comprehensive BRP provides for a controlled response to emergencies by describing the policies and procedures to be followed. ATB's business resumption strategy is to ensure that key processes and systems can be restored after an interruption within timeframes that management has determined to be acceptable.

Criteria

A BRP should include:

1. a prioritized list of business processes and systems
2. timelines required to recover each business process and system
3. procedures to recover processes and systems
4. a list of all personnel responsible for each business process and system
5. planned tests of the business resumption plan

Findings

Satisfactory progress

ATB has made satisfactory progress implementing this recommendation. Over the last two years, ATB has dedicated resources to developing and testing a BRP. During this time, ATB has prioritized its processes and systems, established recovery timelines and prepared a list of responsible personnel.

Further work remains

Further work remains before ATB has a complete BRP. Currently, ATB does not have reliable disaster recovery procedures in case its main banking computer system fails. Also, management has identified 11 branch processes, such as customer deposits and withdrawals, wire transfers and cheque cashing, as critical. While recovery procedures have been developed for these branch processes, they have not been tested to see if they will work. ATB has committed to finalizing and testing these remaining critical components of the BRP by March 2004. We will review management's progress during the next audit cycle.

Implications and risks

Inability to recover business operations

Without a BRP, ATB is at risk of being unable to recover business operations in case of a significant systems failure or business disruption within the timeframes established by management.

4.1.5 Key internal controls

Background

Management must ensure controls are effective

ATB management has a responsibility to ensure adequate key internal controls are in place and functioning properly at both the branch and corporate head office levels. Last year, we recommended (2002—No. 17) that management document, evaluate and monitor internal controls to ensure assets are properly protected and financial information is accurate and complete.

Criteria

Management should:

1. identify and evaluate key internal controls
2. ensure key internal controls are functioning
3. take corrective action when key internal controls are not functioning

Findings

Satisfactory progress

ATB has made satisfactory progress implementing this recommendation. During the year, management identified and evaluated the key internal controls supporting the main branch processes. Then, management issued an *Operational Guide* to communicate the key controls to the branches. In addition, ATB hired regional operating managers whose responsibilities include monitoring branch compliance with the Guide.

Next year we will evaluate the effectiveness of the changes

We could not test the impact of these two new measures since they were only recently introduced. Next year, we will assess whether these measures correct the weaknesses that we observed again this year during our two branch visits. Specifically, we will test for improvements in the controls around safeguarding of cash, opening new accounts, reactivating dormant accounts, handling returned mail and restricting access to the banking system.

Implications and risks

Risk of financial losses

ATB is exposed to potential financial losses when key internal controls are not functioning.

4.1.6 Outsourcing arrangements

Background

Assurance obtained

On pages 104 and 105 in our *2001–2002 Annual Report*, we recommended that ATB obtain independent assurance that external service providers have effective controls. ATB has implemented this recommendation. ATB's Internal Audit Department completed a review of the significant external service providers and concluded that the controls were effective.

4.2 Financial statement audits

4.2.1 ATB

No reservations of opinion for ATB and its subsidiaries

We issued auditor's opinions without reservations for all of the financial statement and compliance audits we completed during the year for ATB and its subsidiaries listed in section 4.2.1 of Scope.

4.2.2 Other entities

No reservations of opinion for other entities

We issued auditor's opinions without reservations for all of the financial statement audits we completed during the year for the entities listed in section 4.2.2 of Scope.

Gaming

Summary: what we found in our audits

1. **Systems**
   1.1 The Alberta Gaming and Liquor Commission (AGLC) should improve systems to ensure the integrity of gaming activities—see page 127.

   1.2 AGLC needs to establish more comprehensive contracting policies —see page 131.

2. **Financial statements**
   Our auditor's reports on the financial statements of the Ministry, Department, AGLC, and Alberta Lottery Fund are unqualified.

3. **Specified auditing procedures**
   We found no exceptions in performing specified auditing procedures on the performance measures of the Ministry.

Overview of the Ministry

Ministry core businesses

The Ministry's 2002–2005 business plan describes three core businesses:
- Develop legislation, regulation and policy for the gaming and liquor industries
- Manage the Alberta Lottery Fund and administer designated lottery programs
- Support gaming and liquor research

Ministry entities

The Ministry consists of the Department, AGLC, and the Alberta Lottery Fund.

Ministry received $1.63 billion and spent $1.10 billion

In 2002–2003, the Ministry had total revenues of $1.63 billion and expenses of $1.10 billion. The majority of revenues ($1.62 billion) came from the net gaming and liquor income of AGLC.

	(millions of dollars)
Expenses are:	
Lottery funded programs	$ 120.0
Gaming research	1.6
Ministry support services	1.4
	123.0
Transfer from Lottery Fund to other ministries	976.5
	$ 1,099.5

For more detail on the Ministry, visit its website at www.gaming.gov.ab.ca.

Scope: what we did in our audits

1. We examined the systems to ensure the integrity of gaming activities and processes for managing contracts at AGLC. We also followed up our previous recommendations on board governance at AGLC and the accountability of the horse racing industry at the Department.

2. We audited the financial statements of the Ministry, Department, the Alberta Gaming and Liquor Commission (AGLC), and Alberta Lottery Fund for the year ended March 31, 2003. We also audited:
   - the financial statements of the Alberta Gaming Research Institute for the year ended March 31, 2003
   - AGLC–Schedules of Sales Volumes of Liquor Containers

3. We completed specified auditing procedures on the performance measures of the Ministry.

Findings and recommendations

1. Systems findings—Alberta Gaming and Liquor Commission (AGLC)

1.1 Integrity of gaming activities

1.1.1 Gaming products and services

Recommendation No. 17

We recommend the Alberta Gaming and Liquor Commission (AGLC) implement processes to ensure:

- **gaming operators buy gaming supplies from registered suppliers.**
- **AGLC buys gaming terminals and gaming supplies only from registered suppliers.**

Background

The *Gaming and Liquor Act* (the Act) requires that suppliers of gaming terminals and gaming supplies be registered with AGLC's Board. The *Gaming and Liquor Regulation* requires AGLC to conduct background checks of applicants for registration.

AGLC buys gaming terminals and supplies for licensed facilities. Gaming operators also buy gaming supplies for their sites. Gaming regulators in North America, including AGLC, recognize that to maintain integrity, gaming terminals and gaming supplies should be purchased from only reputable and financially stable suppliers that have undergone thorough background checks.

Criteria

For AGLC to employ sound business practices and comply with the spirit of its legislation, it should:

- conduct appropriate due diligence background investigations before registering vendors and before signing contracts for gaming or other products and services
- buy gaming terminals and gaming supplies only from suppliers registered under the Act
- enforce the Act's requirements for the gaming industry to buy gaming supplies from suppliers registered under the Act

Findings

We reviewed a broad range of activities in the regulatory program and found AGLC has many elements of a good regulatory framework. Also, it is developing new procedures to more closely monitor casino operators. However, it needs to improve its processes in the following areas:

No check that casinos buy gaming supplies from registered suppliers

1. To ensure the integrity of gaming activities, the Act requires manufacturers, suppliers, and distributors of gaming terminals and gaming supplies to register with AGLC. As part of the registration process, the suppliers go through background checks. AGLC also requires casino operators to buy gaming supplies from registered suppliers. However, AGLC's inspection procedures do not check that the casinos buy gaming supplies from registered suppliers.

Gaming terminals totalling $11 million bought from unregistered supplier

2. AGLC paid over $11 million between March 2002 and March 2003 to an unregistered gaming terminal distributor for gaming terminals, products, and services while the background check was still in progress. During the period the distributor was supplying gaming terminals, it was under police investigation in eastern Canada for allegedly selling illegal clones of legitimate video gaming devices and related equipment.

$821,000 advanced to supplier before background checks done

3. In October 2002, AGLC signed a $2.3 million dollar contract for an electronic bingo system and made an advance payment of $821,000 based on a preliminary review of a prospective supplier's financial statements and a credit report. AGLC did not start a financial due diligence investigation on the supplier and an affiliated manufacturer until about three months after making the advance payment. The investigation revealed that the supplier and the manufacturer were reputable and financially stable. However, providing an $821,000 deposit before completing a thorough background investigation put AGLC at unnecessary risk of loss.

Implications and risks

By doing business with gaming suppliers before registering them, AGLC risks dealing with disreputable and financially unstable vendors. This could cause financial loss, damage AGLC's credibility and erode integrity in the gaming industry.

Further, by not ensuring that gaming operators only buy gaming supplies from registered suppliers, AGLC puts the integrity of gaming activities at risk.

1.1.2 Use of proceeds

Recommendation No. 18

We recommend AGLC implement a process for timely monitoring of licensed groups' use of gaming proceeds.

Background

Organizations with gaming licenses (licensed groups) may generate funds by participating in charitable gaming activities such as casinos, bingos, raffles, and pull tickets. All licensed groups must use the funds for charitable purposes approved by AGLC through the licensing process. AGLC needs a process to ensure that all licensed groups account for the use of gaming proceeds.

Criteria

- AGLC should have a formal process for monitoring the use of gaming proceeds by licensed groups to ensure that the funding is used for the purposes intended.
- The formal process should be applied consistently to all licensed groups and charitable gaming activities.
- AGLC should promptly review the use of proceeds to reduce the risk of inappropriate expenditures going undetected. The use of proceeds from casinos should be reviewed before the licensed group's next casino event.

Findings

Reviews not prompt

AGLC reviews licensed groups' use of gaming proceeds, but not promptly.

AGLC issues financial reports to licensed groups after the distribution of gaming proceeds. The licensed groups enter other information onto these reports and have to return them to AGLC within 60 days of receiving them. They also have to submit supporting documents, including bank statements, cancelled cheques, invoices.

AGLC has not issued 10,891 reports and not reviewed 12,213 reports

AGLC staff review the completed financial reports and supporting documents to ensure that gaming proceeds have been used for the purposes approved by AGLC. However, as the table below shows, AGLC has a substantial backlog of reports that it had not issued and/or reviewed at April 30, 2003. A delay in issuing reports to licensed groups delays the review of completed reports.

Backlog	**Casinos**	**Bingo**	**Other**	**Total**
Issue reports				
2002 - 2003	2,880	2,373	705	5,958
2001 - 2002	2,724	1,943	63	4,730
2000 - 2001	45	158	0	203
Total	5,649	4,474	768	10,891
Review reports				
2002 - 2003	2,880	2,386	824	6,090
2001 - 2002	2,880	2,347	96	5,323
2000 - 2001	199	601	0	800
Total	5,959	5,334	920	12,213

We reviewed 15 licensed groups holding casinos between April 1, 2003 and June 30, 2003 to see if AGLC had completed reviews for previous casino events. For 11 licensed groups, there was at least one prior casino held in 2001 or 2002 for which AGLC had not issued the previous financial report to the licensed group.

AGLC is also behind in issuing financial reports for association bingo licenses. The most recent financial reports AGLC reviewed are for the fiscal year 2000–2001.

Management informed us the backlog is due to significant problems AGLC experienced when it changed its computer system.

Implications and risks

The lack of prompt review of completed financial reports increases the risk of AGLC issuing licences to organizations that do not use the gaming proceeds for charitable and religious purposes.

1.2 Contract management systems

1.2.1 Contracting processes

Recommendation

We recommend AGLC strengthen its process to award and manage contracts by:

- **establishing more comprehensive contracting policies.**
- **improving monitoring of contractors' compliance with contractual terms and conditions.**
- **establishing contracts before services are provided.**
- **requiring consultants to formally confirm they do not have an interest in any organization that conflicts with their obligations to AGLC.**

Background

AGLC enters into many contracts each year for the provision of goods and services. If these contracts are not properly managed, AGLC may not adequately safeguard public assets, potentially resulting in financial losses and negative publicity. AGLC uses consultants to provide services in its daily operations. Because AGLC regulates gaming activities of casinos and charities, and purchases electronic games, it needs to ensure the consultants do not have any conflict of interest with these organizations.

Criteria

AGLCs contracting process should:

- include comprehensive contracting policies
- set performance targets
- ensure competition is open, fair and gets good value
- put safeguards in place when sole sourcing is used
- justify outsourcing
- require the contract to contain a sound framework for contract management and accountability
- ensure contracting performance is monitored and acted upon
- require consultants' contracts to contains conflict-of-interest provisions

Findings

AGLCs contract management policies outdated

AGLC staff use contract management policies developed in 1992 under the Alberta Liquor Control Board. These policies are outdated and not sufficiently comprehensive for AGLC's current business operations. The following examples illustrate the need for comprehensive contract management policies:

Business cases not documented

1. In three cases, AGLC outsourced certain services several years ago. Management has not recently prepared a formal business case to support the conclusion that it is still appropriate to outsource these services. Also, for one of these contracts, management, in renewing the contract, did not formally evaluate, through a competitive bidding process, whether the contractor's services are still competitive.

No formal process to ensure compliance

2. AGLC does not have a formal process to ensure contractors comply with the terms and conditions of the agreement. We examined seven contracts and found suppliers did not provide AGLC with proof of insurance coverage as required by the terms of the contract. Also, in one case, the contractor did not provide performance security.

Clauses to protect AGLC's interests needed

3. The contracts signed by AGLC do not always contain clauses to protect its interest. The contracts for cafeteria and catering services and the purchase of the electronic bingo system did not contain effective dispute resolution clauses. The slot machine contracts do not contain any provisions that protect AGLC against payouts that occur due to a machine malfunctioning.

Contracts not formally amended

4. At the request of the supplier of the electronic bingo system software, AGLC revised the terms for the timing of payment without formally amending the contract.

No signed contracts for two consulting services

5. AGLC did not sign contracts for two consulting services. In one case, the consultant started working on the project while management was working with Alberta Justice and the consultant on the terms and conditions to be included in the contract. Also, AGLC paid for work the consultant provided that was included in the original proposal, which management asked the consultant to exclude from the original proposal. Management informed us that they did not sign a formal contract because the consultant completed the work before management could sign the contract.

No conflict of interest clause

6. AGLC does not require consultants to confirm that their interests, including any associations with third parties, do not conflict with the interests of AGLC.

Contracting policies need to be improved

Management informed us that they are revising contracting policies. Therefore, we suggest that the new policies and procedures include guidance on matters identified in this section. The policies and procedures should also include guidance on the following:

- Clear assignment of all roles and responsibilities of individuals involved in the contracting process.
- Requirements for preparing business case analyses when considering contracting services, including outsourcing or sole sourcing arrangements. The government has issued guidance for preparing business cases, which AGLC should consider adopting.
- The use of requests for proposals and invitations to bid on contracts.
- Selection of contractors and renewal of contracts without competition.
- Requirements for including standard clauses in contracts to protect AGLC's interest. These would cover an effective dispute resolution process, performance securities, proof of insurance, security clearances, code of conduct, and conflicts of interest. These policies should also require employees to document the reasons for excluding standard clauses from contracts.

Implications and risks

Without adequate contract management policies and procedures, inconsistencies and deficiencies in practices, activities, and contracts may exist. AGLC may also suffer losses if contracts do not contain the appropriate provisions to protect its interest and its practices do not mitigate significant risks for each contract.

AGLC may be unaware of conflicts of interest between consultants and other parties AGLC regulates or does business with. There is a risk that AGLC will not obtain unbiased and appropriate advice if consultants make decisions based on their other business interests. There is also a risk of eroding the integrity of the gaming system.

1.3 Risk management

Background and findings

Last year, we recommended (2002–No. 19) that the Alberta Gaming and Liquor Commission (AGLC) develop a formal risk management process and provide the Board with a comprehensive risk assessment, including management's actions to manage the risks.

AGLC implemented our recommendation

AGLC has implemented our recommendation. AGLC prepared a comprehensive risk assessment matrix, including mitigating actions. Its Board agreed with management's assessment and approved the action plan. The matrix covers the business risks associated with AGLC's core businesses.

1.4 Internal controls

Background and findings

Last year, we recommended that the Alberta Gaming and Liquor Commission (AGLC) establish a formal process to assess the adequacy of its systems of internal controls and report the results of these assessments to the Board.

AGLC's assessment process not yet operational

AGLC's Board has decided they will request the government's Chief Internal Audit Office to perform an internal audit function once it is established. We will review AGLC's assessment process when it is operational.

1.5 Horse Racing Alberta

Background

In 1999–2000, (No. 15 and No. 16) we made the following recommendations:

- The Ministry of Gaming establish an appropriate accountability system to determine whether public resources provided to the horse racing industry have been spent for their intended purposes and have achieved their objectives.
- The Ministry of Gaming take appropriate steps to hold the Alberta Racing Corporation accountable for the performance of its delegated responsibilities.

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendations. The Minister of Gaming and Horse Racing Alberta (HRA) entered into a new grant agreement (HRA agreement) in December 2002. As required by the HRA agreement, HRA also entered into agreements with each of the Alberta racetrack operators (operator agreements). The HRA agreement requires HRA to submit to the Minister a three-year business plan (including performance measures), capital and operating budgets, audited financial statements, an external auditor management letter, an annual report, and reports on actual performance measure results.

Ministry improved the accountability framework

The operator agreements specify how operators can spend grant funds. They also require the racetrack operators to submit reports to the HRA, including audited financial statements. All the agreements include clauses that allow the Ministry access to the records of each entity. The Department's Senior Financial Officer sits on the HRA Board.

2. Financial statement audits

We have no reservations of opinion on the financial statements of the Ministry, Department, the Alberta Gaming and Liquor Commission, Alberta Lottery Fund, or the Alberta Gaming Research Institute.

3. Specified auditing procedures

We found no exceptions in performing specified auditing procedures on the performance measures of the Ministry.

Government Services

Summary: what we found in our audits

1. **Systems**

   1.1 The Department should have recovery facilities and equipment available to resume business operations if a service disruption occurs—see page 139.

   1.2 The Department should complete and approve a project management plan for the Registry Renewal Initiative—see page 140.

2. **Financial statements**
   Our auditor's report on the Ministry financial statements includes one reservation of opinion—see page 142.

3. **Specified auditing procedures**
   Results were not available for three of the Ministry's key performance measures. Therefore, we could not perform our specified auditing procedures on these measures—see page 142.

4. **Other entities that report to the Minister**
   The Alberta Corporate Service Centre (the Centre) needs to clearly define its performance measures and targets and improve its processes to track and report results—see page 143.

Overview of the Ministry

The Ministry's 2002–2005 business plan identifies two core businesses:

Two core businesses

- providing a variety of licensing, registry and consumer protection services to Albertans
- providing service improvement initiatives on behalf of the Government of Alberta to improve Albertans' access to services, ensure protection of their privacy and streamline government support processes

The Alberta Corporate Service Centre (the Centre) is a part of the Ministry. It delivers common business support services to all departments in the areas of administration, finance, human resources and information technology.

Ministry spent $221 million

In 2002–2003, the Ministry spent $221 million, including $158 million spent by the Centre on services to government departments.

Ministry received $459 million

Revenues from fees and licences were approximately $304 million from external sources. The Centre also received $155 million from government departments for delivering services.

For more details on the Ministry, visit its website at www.gov.ab.ca/gs/.

Scope: what we did in our audits

1. We performed the following systems work at the Ministry:

    1.1 We reviewed the Ministry's information technology management controls for existing registry systems and the Registry Renewal Initiative.

    1.2 We followed up the Ministry's progress in implementing our previous recommendations to adopt fair information practices for the use, disclosure and protection of information in the Motor Vehicles Registry.

2. We audited the financial statements of the Ministry for the year ended March 31, 2003.

3. We applied specified auditing procedures on the Ministry's key performance measures in the Ministry's 2002–2003 annual report.

4. We performed the following work at the Centre:

    4.1 As part of our work on the Ministry's key performance measures, we followed up on the prior year recommendation to improve its performance measurement systems.

    4.2 We followed up the Centre's progress in implementing our prior year recommendations to improve its:
    - processes to deliver audit services
    - controls for the Electronic Payment System and the Expense Claim System

Findings and recommendations

1. Systems findings

1.1 Disaster recovery plans

Recommendation

We recommend that the Department of Government Services make provision for appropriate recovery facilities and equipment to resume business operations if a service disruption occurs.

Background

Registry systems critical for the Department

The computerized registry systems for land titles, motor vehicles and personal property are critical for the Department, as these systems support the delivery of its core programs. The Department has contracted out the operation and maintenance of these systems to a private sector service provider.

Criteria

The Department should determine the minimum requirements necessary to restore essential business services in the desired time if a service disruption occurs. The Department should ensure the appropriate recovery facilities and equipment are available, based on the assessment.

Findings

24 to 72 hours recovery time

As part of the Department business resumption planning, management determined that the timeframe to restore services in case of a service disruption should be 24 to 72 hours depending on the significance of the potential consequences of the service disruption.

Recovery facilities and equipment not available if disaster occur

However, the Department does not have appropriate recovery facilities and equipment available to recover its services within the required 72 hours. The Department did not make provision in the agreement with the outsourced service provider, or any alternative arrangements, to have recovery facilities and equipment available if a service disruption occurs.

Implications and risks

Business operations and law enforcement could be severely impaired

Business operations could be severely affected in case of a service disruption. The Department could also incur significant legal liability if land title and personal property registrations are not processed promptly during a service disruption. Law enforcement across Alberta can be impaired if the motor vehicle registry is not available.

1.2 Project management plan for Registry Renewal Initiative

Recommendation No. 19

We recommend that the Department of Government Services complete and approve a project management plan for the Registry Renewal Initiative.

Background

Registry renewal initiative to renew 20-year-old systems. Estimated cost: $100 million

The Registry Renewal Initiative (RRI) is a project to renew the systems for the land titles, motor vehicle and personal property registries to ensure that they are capable of meeting the future growth in demand. This involves moving to new technology that will enable the Department to improve service delivery to Albertans. Several private sector service providers are involved in developing the new systems. The project will cost approximately $100 million and the Department expects the project to take place over eight years. The Department has spent approximately $13 million on the project in the 2002–2003 fiscal year.

Criteria

The Ministry should establish a project management plan for significant information technology projects that is approved and communicated at the beginning of a project. The plan should describe the processes to manage the scope, time, cost, risk, quality of the project, the human resources requirements, and the processes for communication and procurement.

Findings

Project management plan not complete

The Department should improve the management controls for the RRI. We found that the project management plan for the RRI was incomplete and not approved. For example:

Risk management plan not complete

- although a high-level risk identification and assessment was completed for the RRI, the Department did not indicate how it would manage the risks. Also, the project risk assessment was not supported by a departmental risk management plan, which would document the Department's overall business risks and how the Department plans to manage its risks.
- processes were not in place to monitor changes in the initial RRI cost-benefit analysis and to identify the impact of those changes over the total life of the RRI project.

Detailed cost-benefit analysis of RRI not complete

- the detailed cost-benefit analysis of the RRI was not up-to-date and did not include all direct and indirect costs.

- the processes to manage the time, quality and human resource requirements were either not drafted or comprehensive enough to manage the project.

Critical to have processes and plans in place

Due to the size and complexity of the RRI, it is critical that the planning be completed, all significant risks identified and systems established to deal with the risks before extensive work is carried out. It is important that a departmental risk management plan also be developed to identify risks that may affect the project. For example, the RRI initiative will take approximately eight years to complete and during this time, the contract with the service provider of the existing registry systems will expire. This means that the Department may need to move to a new service provider during the project. If not properly managed, this could cause significant delays and cost overruns in the project.

Implications and risks

Cost overruns and time delays possible

Lack of established project management processes and understanding of it by all participants, could cause significant cost overruns, time delays and missed project objectives.

1.3 Motor Vehicles Registry access standards

Background

Fair information practices needed for personal information in Registry

In 1997–1998, our Office and the Office of the Information and Privacy Commissioner issued a joint report on the protection of privacy and security of registry systems. The Department accepted the recommendations and implemented all but five of the recommendations. These five relate to access to information in the Motor Vehicles Registry (the Registry). Last year (2002—No. 21), we again recommended that the Ministry implement access standards for the use and disclosure of personal information in the Registry.

Criteria

The use, disclosure, and protection of personal information in the Registry should be in accordance with fair information practices.

Findings

Satisfactory progress

The Department is making satisfactory progress in implementing our prior year recommendation.

Legislation amended

The Department worked with the Ministry of Transportation and the Office of the Information and Privacy Commissioner on amendments to the *Traffic Safety Act*, the *Freedom of Information and Protection of Privacy Act*, and the development of the *Access to Motor Vehicle Information Regulation*.

Regulations issued that contains standards

On May 20, 2003, Cabinet approved the *Access to Motor Vehicle Information Regulation*, which prescribes the purposes for which Registry information may be disclosed. The Regulation limits the number of parties to whom information in the Registry may be released. The Regulation will ensure that the use, disclosure, and protection of personal information in the Registry are in accordance with fair information practices.

Regulation not yet in effect

Most sections of the Regulation do not come into effect until May 1, 2004. Until then, the Ministry will continue to operate as before. The Ministry plans to revise access agreements and policies to ensure standards are followed when the sections of the Regulation come into effect. The Ministry plans to update all communications material and distribute this to all affected stakeholders. We will follow up in 2003–2004 the Ministry's progress in fully implementing the recommendation.

Implications and risks

Access standards will help ensure that the personal information in the Registry is not misused.

2. Financial statement audits

Capital assets understated

Our auditor's report on the Ministry financial statements has one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

Results were not available for three of the Ministry's key performance measures. Therefore, we could not perform our specified auditing procedures on these measures. This resulted in three exceptions in our specified auditing procedures report.

4. Other entities that report to the Minister—Alberta Corporate Service Centre

4.1 Performance measures

Recommendation No. 20

We again recommend that the Alberta Corporate Service Centre clearly define its performance measures and improve its processes to track and report results (2002—No. 22).

Background

Business plan performance measures

The 2002–2005 Ministry business plan includes four key performance measures for the operations of the Centre:

- percentage of customers satisfied with the level and quality of services
- projected gross operating savings achieved
- percentage of performance targets in service level agreements that are met
- percentage of business processes reviewed and re-engineered

Last year, we recommended that the Alberta Corporate Service Centre (the Centre) improve its performance measurement systems (2002—No. 22). Management accepted this recommendation and indicated that they would reassess and clarify performance measures and targets.

Criteria

1. Performance measures and targets should be clearly defined and linked to the core businesses and goals of an organization.

2. Adequate control systems should exist to ensure that performance information is accurate and verifiable.

3. Performance results should be reported in relation to the business plan.

Findings

Unsatisfactory progress

The Centre has not made satisfactory progress in improving its performance measurement systems.

Cost savings not defined

The methodology for the cost savings measure was not clearly defined and used in the determination of results. The Centre prepared a discussion paper that set out the definition of cost savings, and how to measure them. However, this document was not finalized, approved or communicated to the staff responsible for collecting the information.

Thus, performance results initially provided to us did not always meet the definition of "cost savings" as outlined in the discussion paper. In addition, supporting documentation was not available for all savings.

No central quality review process

The Centre did not have a central review process to ensure that performance information included in the draft 2002–2003 ministry annual report was consistent with the performance measure methodology and adequately supported. The original draft of the Centre's annual report section also included other information that was not supported or consistent with the performance measure results. Errors we identified were subsequently corrected and we were able to complete our auditing procedures. However, many of these errors could have been avoided if a quality review was performed.

Reported results for only two of four measures

The Centre reported results for only two of its four measures in the 2002–2003 ministry annual report. Results for the *percentage of business processes reviewed and re-engineered* were not presented because it was difficult to clearly define the measure and determine results. The Centre was unable to report results for the *percentage of performance targets in service level agreements that are met* measure because targets in the agreements are not clearly defined and no processes exist to track results.

Implications and risks

Without adequate performance measurement systems, performance information may be unreliable or lacking and may lead to poor management decisions.

4.2 Audit services

Last year, we recommended that the Centre improve its processes to deliver audit services to ministries that request them (2002—page 25). Most of these audits focus on compliance with legislation, policies and procedures. The Centre is responsible for planning, executing and reporting the results of each audit.

Audit services may be transferred to Internal Audit

The government has recently established the Office of the Chief Internal Auditor. The compliance audit function of the Centre may be transferred to this new Office. Given this possibility, the Centre has not implemented any changes to its audit processes. We will follow-up on this recommendation in 2003–2004.

4.3 Information technology systems operations and controls

Last year, we recommended that the Centre improve controls for the Electronic Payment System and the Expense Claim system (2002—page 23).

Satisfactory progress in improving controls

The Centre is making satisfactory progress in implementing our recommendation. During the year, the Centre improved change management controls and the overall operations of the systems. The Centre also worked with the Senior Financial Officer (SFO) Council to develop control system guidelines to improve controls over these systems in departments. To fully implement this recommendation, the Centre needs to develop and implement policies and procedures relating to system security, access controls, and operations.

Health and Wellness

Summary: what we found in our audits

1. Systems

Systems can be improved

- Three-year performance agreements, which are to replace business plans, were not signed at the beginning of the year—see page 151.
- The Department should improve control of, and accountability for, conditional funding—see page 152.
- Province Wide Services funding processes can be improved—see page 153.
- Satisfactory progress was made by the Department on our past recommendation to assess the effectiveness of controls over information technology, resolve deficiencies, and strengthen the overall control framework—see page 157.

2. Financial statements

Unresolved accounting issues

Our auditor's opinion on the financial statements of the Ministry and the Department contained significant reservations of opinion. The critical issue continues to be the non-consolidation of Authorities in Ministry results —see page 158.

3. Specified auditing procedures

No exceptions noted but quality control can be improved

3.1 We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures. However, the Department needs to perform a thorough quality control review of performance information before it goes in the Ministry annual report. Corrections were required to the performance information to avoid exceptions in our specified auditing procedures report—see page 158.

Report contained three exceptions

3.2 We found three exceptions when we completed specified auditing procedures on Alberta's Report on Comparable Health Indicators. The processes used to prepare the report could be improved for future reporting, particularly in managing the process and quality control—see page 159.

4. Other entities that report to the Minister

Authorities need improved systems

4.1 Authorities

4.1.1 The Alberta Cancer Board has made satisfactory progress in implementing our recommendation to improve systems for managing cancer drug programs—see page 160.

4.1.2 The Calgary Health Region needs to set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks—see page 161.

All but one Authority received an unqualified audit opinion on its financial statements

4.2 Financial statements

4.2.1 The Department of Health is taking appropriate steps to encourage Authorities to continue to improve their internal controls—see page 163.

4.2.2 Our auditor's report on the financial statements of both Provincial health boards and 11 of the 12 regional health authorities contained no reservations. We had one reservation of opinion on the financial statements of the Chinook Regional Health Authority—see page 163.

4.2.3 The financial statements of the five regional health authorities that we do not audit received unqualified auditor's opinions from their appointed auditor—see page 163.

4.2.4 Our auditor's opinion on the financial statements of the Alberta Alcohol and Drug Abuse Commission was qualified because the Commission understated capital assets—see page 164.

Overview of the Ministry

The Ministry's business plan lists two core businesses:

- lead and support a system for the delivery of quality health services.
- encourage and support healthy living.

Complex system to manage

The Ministry consists of the Department of Health and Wellness, nine regional health authorities, two provincial health boards and the Alberta Alcohol and Drug Abuse Commission. We refer to regional health authorities and provincial health boards collectively, as "Authorities".

Restructuring occurred

Restructuring continued in the health system over the past year. Effective April 1, 2003, the 17 regional health authorities were reduced to 9.

As the change occurred after the Authorities' fiscal year-end, our report includes the results of our work on the 17 Authorities. Recommendations are directed to the remaining Authorities that assumed responsibilities for the ones that no longer exist.

Total expenses in the Ministry consolidated financial statements were $6.8 billion for the year ending March 31, 2003. The main components were:

	(millions of dollars)
Authorities	3,850
Province-wide Medical Services by Health Authorities	418
Physician Services	1,442
Allied Health Services	63
Blue Cross Benefit Program	413
Human Tissue and Blood Services	116
Protection, Promotion, and Prevention	142
All other	397

Main external sources of revenue were $950 million in transfers from the Government of Canada and $937 million in premiums and fees.

See the annual report and financial statements of the Ministry and the Department for more information and details of operations and financial results (www.health.gov.ab.ca).

Scope: what we did in our audits

1. We followed-up our previous recommendations and examined Province Wide Services funding processes.

2. We audited the financial statements for the year ended March 31, 2003 for the Ministry and the Department.

3. We applied specified auditing procedures to:
    - the Ministry's performance measures
    - Alberta's Report on Comparable Health Indicators

4. We performed the following work on other entities that report to the Minister:
    - We followed-up our previous recommendations and examined contract management processes in the Calgary Health Region.

    - We audited the financial statements for the year ended March 31, 2003 for the following entities:
        - Chinook Regional Health Authority
        - Headwaters Health Authority
        - Calgary Health Region
            - Carewest—a wholly owned subsidiary
        - Regional Health Authority 5
        - East Central Regional Health Authority 7
        - Westview Regional Health Authority
        - Capital Health Authority
            - Capital Care Group Inc. —a wholly owned subsidiary
        - Lakeland Regional Health Authority
        - Mistahia Regional Health Authority
        - Peace Regional Health Authority
        - Keeweetinok Lakes Regional Health Authority #15
        - Northern Lights Regional Health Authority
        - Alberta Mental Health Board
        - Alberta Cancer Board
        - Alberta Alcohol and Drug Abuse Commission

    - We reviewed the results of audits of five regional health authorities that we don't audit:
        - Palliser Health Region
        - David Thompson Regional Health Authority
        - Crossroads Regional Health Authority
        - Aspen Regional Health Authority
        - Northwestern Regional Health Authority

Findings and recommendations

1. Systems findings

1.1 Progress on past recommendations

Progress on past recommendations

On pages 130–133 and 139–140 of our *2001–2002 Annual Report*, we provided the status of unimplemented recommendations with satisfactory progress. None of these recommendations have been implemented in the current year so we will continue to monitor progress with their implementation. If progress is unsatisfactory, we will repeat the recommendation.

1.2 Performance agreements and business plans

Recommendation No. 21

We again recommend the Department of Health and Wellness ensure performance agreements are in place at the start of the period to which they apply (2002—No. 23).

Background

Accountability document changed but implementation issue remains

Essentially, this repeats our past recommendations on business plans. Although the Department changed the accountability document from business plans to performance agreements, the issue of implementation remains. In our *Annual Report* (2002—No. 23), we recommended the Department and Authorities implement a joint strategy to ensure business plans are implemented at the start of the year. We have made the same recommendation for the past four years.

Agreements are being finalized

The Department and Authorities are finalizing performance agreements that will replace business plans as the accountability mechanism between the Minister and Authorities. The Minister will no longer approve business plans of Authorities.

The performance agreements are to be instruments of change that encourage innovation and collaboration between Authorities and the Department and improve accountability. The agreements will set out mutual understandings of the expectations and performance deliverables of the Department and Authorities. The agreements are effective April 1, 2003 and last for three years.

Criteria

Accountability documents should be in place at the start of each operating year to provide a basis of accountability throughout the year.

Findings

Agreements not yet signed, but effective April 1, 2003

The Department has not made satisfactory progress implementing the recommendation. Draft performance agreements were not signed when we finalized this report, even though they are to cover the three-year period starting April 1, 2003. In addition, the information referred to in Schedule A to the draft performance agreements was not submitted to the Department by four of the nine Authorities. This includes the Authorities' strategic and financial plans; capital plans; health workforce plans; and information on IT, bed capacity and province-wide services.

Implications and risks

There is potential for lack of accountability as performance expectations are not signed-off at the agreement commencement date.

1.3 Control of, and accountability for, conditional grants

Recommendation No. 22

We again recommend the Department of Health and Wellness improve its control processes for ensuring accountability for conditional grants (2002—page 134).

Background

Department issues conditional grants

For the fiscal year 2003, the Department provided conditional grants of $196 million to Authorities. The funding must be used for the purposes specified by the Department. For example, the Department issued conditional grants to pay for transitional costs relating to the boundary change, IT systems, paediatrics, and the on-call surgery program.

Nature of funding affects operating decisions

Conditional grants received by an Authority cannot be used at the discretion of its Board. It is important that the Authority and the Department understand whether funding is conditional or unconditional, as this affects operating decisions of both parties. Funds not spent in accordance with the Department's conditions may have to be repaid by Authorities, under the *Health and Wellness Grants Regulation*.

Criteria

The Department's accounting system should track conditional grants so that management can subsequently follow up with Authorities to determine whether funding conditions were met and decide if unspent amounts are repayable to the Department.

Nature of funding should be clear

Agreements and other communication associated with conditional funding should clearly articulate the funding conditions.

Findings

Accounting system does not facilitate monitoring conditional grants

The Department has not made satisfactory progress implementing the recommendation.

Conditional grants are not separately identifiable from unconditional grants within the Department's accounting system. As a result, the accounting system does not facilitate monitoring conditional grants.

Agreements changed but substance unchanged

In addition, there was uncertainty by some Authorities on how to account for certain grants received from the Department because of changes in the grant agreements. The grant agreements for Information Security Compliance/Systems and Transition funding indicated that the funding to Authorities was conditional (for example, it could only be used for purposes specified). The Department subsequently revised the agreements, and reissued them to Authorities. Although certain provisions of the original agreements were changed, such as a statement indicating Authorities should record the funding as unconditional funding (revenue) in their financial statements, the substance of the original agreement remained unchanged.

Implications and risks

Any amounts repayable to the Department may not be appropriately recorded as accounts receivable at year-end.

Clarity of funding can mitigate risks

If documentation supporting funding does not clearly articulate funding conditions, (1) the funds may not be used for intended purposes, (2) unnecessary time may be spent at year-end by Authorities to clarify how they should be reported, (3) conditional funding may be incorrectly recorded as revenue, resulting in an overstatement of Authorities net assets or understatement of their accumulated deficits.

1.4 Province Wide Services

Introduction

Funding framework established in 1995

The Minister of Health established the Health Services Funding Advisory Committee in 1995 to advise him on a new framework for funding health services. The Committee recommended the implementation of a funding system comprised of three main components:

- Population based funding shared among the Authorities according to the number of people resident in each Authority with adjustments for age, gender and socio-economic health risks;
- Other funding for sparse populations and increased costs of supplies and services in remote areas; and

- Funding for Province Wide Services (PWS) that are highly specialized, complex, high cost services provided mainly in Edmonton and Calgary (for example: heart and transplant surgeries).

To meet the last funding component, the Minister established the Province Wide Services Advisory Committee to assist with funding issues, scope of services, and establishing accountability measures for PWS services.

Province Wide Services working group established

In 2002, the Province Wide Services Advisory Committee was replaced by the Province Wide Services Working Group (the Working Group). The Working Group is an advisory committee to the Deputy Minister of Health. It is comprised of a diverse group of individuals, including representatives from the Department of Health and the Calgary and Capital Authorities. The Working Group's success depends on the collective commitment of its members.

Scope of our audit

Our audit focused on the Province Wide Services Working Group's processes and two technical issues: changes in service grouping methodology and funding pre- and post-transplant surgery services. Given the complex nature of the subject matter, medical specialists assisted us in our audit.

The Department of Health provides funding to the Capital and Calgary Authorities for PWS services.

1.4.1 Working Group process

Recommendation No. 23

Processes can be improved

We recommend that the Department of Health and Wellness and the Province Wide Services Working Group clarify the mandate of the Working Group and improve processes to achieve that mandate.

Background

The Working Group's mandate is to:

- develop a medical and financial accountability framework for Province Wide Services;
- develop clear principles and operational rules for determining the Province Wide Services budget; and
- discuss Province Wide Services issues.

Criteria

1. Mandate—the Working Group's mandate should describe its responsibilities in specific terms, focusing on planning and delivering high quality PWS services to Albertans.

2. Annual process—the Working Group should review current and proposed PWS services and prioritize them within the context of funding principles and budget constraints.

3. Regular meetings and communication—the Working Group should meet and report regularly on its work to the Deputy Minister and document its decisions.

4. Funding formula—the Working Group and the Department should follow the funding formula for inpatient services, which is projected volume multiplied by average historical cost (adjusted for inflation).

Findings

1. The mandate is stated in general, non-actionable terms. As illustrated in subsequent recommendations, clarity of the mandate is required.

2. The Working Group provided a list of qualifying services to the Department for the 2002–2003 budget. This list did not prioritize services. The Department modified the listing of qualified services given budget considerations.

3. The Working Group did not formally meet for approximately 9 months between November 2002 and August 2003. As a result, not all recommendations to the Deputy Minister were reviewed and approved by the Working Group.

4. Given uncertainty of cost data, the Department of Health increased the volume of services for bone marrow transplants, from that projected by an Authority for the fiscal year 2003–2004, to arrive at an amount the Department was willing to pay. This ignored the accepted funding formula for PWS services.

Implications and risks

Benefits from the effective operation of the Working Group may not be fully realized.

1.4.2 Changes in service grouping methodologies

Recommendation

We recommend the Province Wide Services Working Group review the changes to the qualifying list of PWS services arising from methodology changes.

Background

Grouping methodology used to categorize patients

Grouping methodologies categorize patients into clinically meaningful and resource utilization homogeneous groups for funding purposes and comparisons between provinces.

When Province Wide Services funding was established, qualifying inpatient services were defined using a specific diagnostic service grouping methodology, the Refinement Grouper Number (RGN methodology).

The Department of Health changed to a new Case Mix Group (CMG) methodology in 2002–2003 to comply with changes in national standards. The CMG is designed to aggregate inpatients with similar clinical and resource use characteristics. A new qualifying list of PWS services was developed employing the CMG methodology.

Criteria

The Working Group should review technical changes in grouping methodologies to determine the impact on PWS services.

Findings

Services designated for PWS funding changed

The services designated for PWS funding changed. A sub-committee of the Working Group was established that created a new list of qualifying PWS services based on the CMG groups. In situations where the CMG groups were too generic, a more detailed definition based on procedure code was used. This initial list was submitted to the Department of Health. The Department reduced the case groups to be included in the PWS services funding envelope based on budget considerations. The resulting list of qualifying PWS services did not include any cases specifically defined by procedure code and certain CMG groups. The Department finalized the list of qualifying PWS services without the Working Group's review and recommendation. Some CMGs are excluded while other lower-resource CMGs are included in the list of qualifying PWS services.

Implications and risks

Changes in methodology can impact the qualifying list of PWS services resulting in inconsistent funding.

1.4.3 Pre- and post-transplant services

Recommendation

We recommend that the Department of Health and Wellness and the Province Wide Services Working Group decide what pre- and post-transplant services qualify as PWS services and determine their costs.

Criteria

There should be consensus about which services qualify for PWS funding.

Background and findings

Consensus not yet reached on pre- and post-transplant services

Funding for pre- and post-transplant services includes surgical and drug costs to prevent transplant rejection but does not include the direct costs involved with donor and recipient preparation and clinical follow-up. The Health System Funding Review committee recommended in 1998 that these costs be identified and funded as PWS services. To date, the Department and Working Group have not reached consensus on a comprehensive listing of these services and their costs.

Implications and risks

The list of qualifying PWS services may be incomplete.

1.5 Information technology control environment

Progress on recommendation satisfactory

Last year, we recommended (2002—No. 24) that the Department of Health and Wellness assess the effectiveness of the controls over information technology, resolve deficiencies, and strengthen the overall control framework. In particular, the Department should obtain assurance that its two service providers are maintaining effective controls.

Progress on the recommendation is satisfactory. The Department now obtains assurance on the controls of its service providers. To fully implement the recommendation, the Department needs to:

- ensure that deficiencies in the service providers' control environments identified through a SysTrust review are resolved;
- complete a comprehensive risk assessment of the IT environment; and
- establish and implement an IT business continuity plan.

The risk assessment and business continuity plan are two key components to assist in strengthening the Department's control framework. We will continue to monitor the Department's progress implementing this recommendation.

2. Financial statement audits

2.1 Reservations of opinion on Ministry financial statements

Consolidated reporting of assets, liabilities expenses and revenue not provided for health sector

We again issued an adverse auditor's opinion on the Ministry financial statements. The Ministry financial statements contain only the transactions of the Department and Alberta Alcohol and Drug Abuse Commission. Canadian generally accepted accounting principles (GAAP) applicable to the Ministry require Authorities to be consolidated in the Ministry financial statements. The Ministry financial statements are not presented fairly. The Government of Alberta Annual Report section indicates the action planned by the government in response to this issue—see page 41.

2.2 Other matters in auditor's report

Related parties not reported

Our auditor's report on the Ministry and Department financial statements contained a reservation of opinion because government accounting policy does not recognize Authorities as related parties. This is contrary to GAAP.

Capital assets are understated

Our auditor's reports on the Department and Ministry financial statements also have a reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

3.1 Ministry performance measures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Improved quality control process

Recommendation

We recommend that the Department of Health and Wellness improve the quality control review process for performance information in its annual report.

Background

The Department uses a decentralized process to obtain its performance information. The co-ordinator of performance information relies on program staff to ensure the quality of information.

Criteria

Program staff should be given guidance on how to ensure the quality of performance information. Examples include staff orientations and providing instructions and checklists for program staff.

The draft annual report should be subject to an internal quality review within the Ministry and a set of supporting working papers should be available for each performance measure.

Findings

Quality control review could be improved

The Department is not performing a thorough quality control review of performance information before it goes in the annual report. Performance information is received by e-mail from the program areas and entered into the annual report. Corrections were required to the measures to avoid exceptions in our specified auditing procedures report. Management did correct all significant concerns, but many of the issues could have been avoided if the Department performed a quality review of the results and narrative text in each performance measure.

Implications and risks

Management may be unable to satisfy itself that the measures are accurately reported. In addition, additional administration costs may be incurred.

3.2 Alberta's Report on Comparable Health Indicators

Recommendation

We recommend that the Department of Health and Wellness continue to improve the processes used to prepare its next *Alberta's Report on Comparable Health Indicators*.

Background

For the first time in Canada comparable health indicator reporting is performed

The Department published a report entitled *Alberta's Report on Comparable Health Indicators* in September 2002. The report was Alberta's contribution towards comparable health indicator reporting by all provinces and territories as well as the federal government, under the September 2000 First Minister's agreement. The report was the first step in comparable health indicator reporting in Canada. It marks the first time health ministries from all provinces, territories and the federal government have reported concurrently on comparable health indicators.

At the request of the Department, we performed specified auditing procedures on the indicators in the report.

Findings

We noted three exceptions to our specified procedures

We found three exceptions when we completed our specified auditing procedures. All the exceptions related to compliance with the reporting recommendations (Performance Indicators Reporting Committee Plan, "PIRC") approved by the Conference of Deputy Ministers of Health. The exceptions are:

- PIRC states that the indicator for infant mortality must take into account trends in survival of infants with birth weight less than 500 grams. The Report does not include information on these infants.
- Alberta reports the average wait times for radiation therapy for breast and prostate cancer and not the median wait times as required. Although there is a general note about data comparability, PIRC requires that any deviation from the reporting requirements for these indicators be disclosed. The Report does not disclose there has been a deviation from the required method of reporting.
- PIRC requires for the indicator of *Estimated number of months to clear current wait list for hip and knee replacement* that the Report disclose the method used to identify the date on which the decision to proceed with surgery was made. Such information on the method is not disclosed in the Report because the Department believes this information is not relevant to the calculation of the indicator.

Quality control processes can be improved

We reported these findings to the Department in October 2002. We noted the processes used to prepare the report could be improved, particularly in the area of quality control.

The Department has communicated some of our observations to the Federal/Provincial/Territorial (FPT) Committee. The Committee sets national reporting standards for the indicators. The Department has supported the view that reporting guidelines, data availability and quality need to be reviewed before the next round of FPT reporting in November 2004.

The implementation of the recommendation will be reviewed when the next *Alberta's Report on Comparable Health Indicators* is prepared.

4. Findings on other entities that report to the Minister

4.1 Authorities

4.1.1 Alberta Cancer Board

Background

In our *2001–2002 Annual Report* (No. 25), we recommended that the Alberta Cancer Board (ACB) improve systems for managing cancer drug programs.

ACB pays for approximately 80 cancer drugs that the Minister of Health and Wellness has approved under the Cancer Drug Benefit program. There is no cost to the patients. Drug costs are significant to ACB and increased from $11.3 million in 1997–1998 to $35.6 million in 2002–2003.

Criteria

ACB needs to reach a clear understanding with Alberta Health and Wellness on the responsibility of each party for managing the cost of cancer drugs.

Findings

Progress satisfactory

The government accepted our recommendation and advised us that the Department of Health and Wellness would continue to work with ACB to improve their system for managing cancer drug programs.

The Department advised ACB that it was reviewing its public policy on all drug programs and that when that process was complete, ACB and the Department would be able to prepare an agreement on the responsibilities and authority of both parties for the Cancer Drug Program.

The Department and ACB are working on a performance agreement that sets out what ACB and the Department are each accountable for. The performance agreement has not been finalized.

4.1.2 Calgary Health Region—contract management

Recommendation

We recommend that the Calgary Health Region set financial reporting and assurance requirements for contractors and strengthen its monitoring of contractors' financial performance and risks.

Background

Contracts between Authority and contractors are significant

We examined whether the Region had an adequate contract management system for care centre operators (contractors) who provide continuing care to residents in the region. Contracts between the Region and these contractors are significant. The Region provided funding of over $20 million to the two largest of approximately 20 contractors in 2002–2003.

This recommendation relates to contract monitoring and evaluation.

Criteria

The Region's contract management system should:

1. verify that services were received and contract conditions met before approving final payments.
2. monitor and evaluate financial performance through inspection, contractor reporting, and independent review throughout the year.

Findings

The first criterion was met. The second criterion was partially met. Although the Region performed inspections, obtained audited financial information, and reviewed contractor reporting of performance indicators there were deficiencies in these processes.

The Region did not define financial reporting and assurance requirements

The Region had not provided written direction to the contractors on the revenues, expenses, assets, and liabilities to include in the financial reporting required by the contract. Therefore, the financial reports the Region received may have excluded revenues and included expenses for services that were not required by the contract. Also, the Region had not provided direction to the contractors describing what financial and related information required audit assurance to add credibility to information used to assess contractors' performance and to determine funding.

Financial position and capital asset levels not assessed

The financial information reported by contractors was insufficient to assess the risk that the contractors would be unable to fulfil the contract requirements. Some reports did not contain a statement of financial position so the Region could assess the contractor's ability to pay its creditors. Others did not include capital assets to help the Region assess the risk that equipment and buildings are insufficient to provide the contracted services.

Subsequent progress

For the 2002–2003 fiscal year end, the Region indicates that it has made changes to the annual reporting requirements for contractors.

Implications and risks

Inaccurate information may be used to assess performance

Without written directions from the Region, the contractors' reports may have excluded or inappropriately treated information that is, or should be, used to assess performance.

The Region may not identify and take corrective action when contractors lack resources needed to provide the contracted services. This may result in additional costs to the Region.

4.1.3 Chinook Regional Health Authority—reservation of opinion

Background

In the past three *Annual Reports*, we recommended that the Chinook Regional Health Authority work with the Department of Health and Wellness and Alberta Infrastructure to clarify the nature of the Authority's future responsibilities for, and control of, one long-term care facility.

Findings

Satisfactory progress made

Satisfactory progress was made. Alberta Infrastructure and the Chinook Regional Health Authority agreed on the terms for a capital lease of the facility. We will review the full implementation of this recommendation in 2003–2004.

4.2 Financial statement audits

4.2.1 Internal controls at Authorities

Background

Management letters identify need for improved controls

The Auditor General is the auditor of 12 of 17 Authorities and both Provincial health boards (Cancer, Mental Health). For those Authorities we don't audit, we review the management letters sent to the Authorities by their auditors. Those audits were not designed to assess all key systems of control and accountability. However, the auditors communicate any findings to management if weaknesses come to their attention when auditing the financial statements.

Findings

Need for improved control

Those Authorities not audited by the Auditor General received recommendations on how to improve their controls. Subjects covered by the auditors included human resource management and payroll, capital assets, purchases and payables, and contracting. In our opinion, none of the matters raised by the auditors warrant inclusion in this Report. We are satisfied that the Department of Health is taking appropriate steps to encourage those Authorities to continue to improve their controls.

4.2.2 Unqualified auditor's opinions on 11 of 12 Authorities and two boards

All but one Authority received an unqualified audit opinion on its financial statements

With the exception of Chinook Regional Health Authority, all Authority financial statements received unqualified auditor's opinions. The financial position, results of operations, and changes in financial position were presented fairly in accordance with Canadian generally accepted accounting principles.

Our auditor's opinion on the financial statements of Chinook Regional Health Authority was again qualified because evidence was not provided to support management's assertion of control over an asset that cost $27 million.

4.2.3 Audits of five Authorities we don't audit

The financial statements of five regional health authorities that we don't audit received unqualified auditor's opinions from their appointed auditor.

4.2.4 Alberta Alcohol and Drug Abuse Commission reservation of opinion

Our auditor's report on the financial statements of the Commission was qualified because the Commission immediately expenses capital asset acquisitions under $5,000 instead of amortizing them over their useful lives.

Human Resources and Employment

Summary: what we found in our audits

1. **Systems**
   The Department should ensure the new contract management administration system meets staff needs—see page 168.

One reservation of opinion

2. **Financial statements**
   We have one reservation of opinion on the financial statements of the Ministry—see page 174.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**

4.1 The Workers' Compensation Board (WCB)

4.1.1 WCB should strengthen the controls in its claims management system for its economic loss payment program—see page 175.

4.1.2 We issued an unqualified auditor's opinion on the financial statements of WCB for the year ended December 31, 2002.

4.2 We issued unqualified auditor's reports on the audits listed in section 4.2 of Scope.

Overview of the Ministry

The Ministry delivers programs and services through the Department of Human Resources and Employment, the Personnel Administration Office (PAO), the Alberta Labour Relations Board (ALRB), the Appeals Commission for Alberta's Workers' Compensation and the Workers' Compensation Board (WCB).

Three core businesses

The Department's 2002–2005 business plan describes three core businesses:

- People Investments: providing the foundations for people in need
- Skills Investments: helping people to be their best at learning and work
- Workplace Investments: supporting workplaces to make Alberta prosperous

In addition, PAO's core business is to provide strategic direction and services for human resource management in the Alberta public service.

WCBs four strategic themes

The WCBs 2002–2004 strategic plan describes four strategic themes to guide the organization:

- Leveraging prevention
- Return to work
- Commitment to fairness
- Financial stability

Ministry spent $1.1 billion

During 2002–2003, the Ministry spent $1.1 billion on the following programs:

	(millions of dollars)
People Investments	745
Skills Investments	287
Workplace Investments	18
Personnel Administration Office	8

Ministry received $361 million

The Ministry received $361 million in 2002–2003, $344 million of which came from the following transfers from the Government of Canada:

	(millions of dollars)
Canada Health and Social Transfer	192
Labour Market Development Agreement Benefits	122
Rehabilitation of Disabled Persons	22
Services to On-reserve Status Indians	8

WCB's 2002 financial results

WCB's financial results are reported on a calendar year basis and are not consolidated into the Ministry. Its financial results are summarized as follows:

	(millions of dollars)
Revenue	881
Expense	941
Assets	4,085
Liabilities	3,696
Reserves and fund balance	389

For more information on the Ministry and its programs, see its website at www.gov.ab.ca/hre. For more information on WCB and its programs, see its website at www.wcb.ab.ca.

Scope: what we did in our audits

1. We reviewed the Department's implementation of its new contract management administration system, the effectiveness of the processes used to manage the *Training-On-the-Job* program, and the adequacy of conflict-of-interest guidelines for subcontracts entered into by external parties on the Department's behalf. We also followed up our previous recommendations that the Department improve the procedures to monitor training providers, safeguard client information, obtain independent assurance on the control environment of its computer service provider and complete a business resumption plan.

2. We audited the financial statements of the Ministry for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We also performed the following work:

   4.1 The Workers' Compensation Board (WCB)

   4.1.1 As part of the 2002 financial statement audit, we audited WCB's claims management system. We focused on the economic loss payment program.

   4.1.2 We completed the audit of the financial statements of WCB for the year ended December 31, 2002.

   4.2 We audited the following claims and financial statements:
   - The *Canada-Alberta Agreement on Labour Market Development Claim* of $122 million for the year ended March 31, 2003

- The *Annual Statement of Expenditures for the Canada-Alberta Agreement on Employability Assistance for People with Disabilities Claim* of $22 million for the prior year ended March 31, 2002
- The financial statements of the following Trust Funds under the administration of the Ministry:
  - Long Term Disability Income Continuance Plan–Bargaining Unit and Long Term Disability Income Continuance Plan–Management, Opted Out and Excluded for the year ended March 31, 2003
  - Government of Alberta Dental Plan Trust for the year ended December 31, 2002
  - Government Employees Extended Medical Benefits Plan Trust for the year ended December 31, 2002

Findings and recommendations

1. Systems findings

1.1 Meeting system user needs

Recommendation No. 24

We recommend that the Department of Human Resources and Employment ensure the Contract Management Administration System meets user requirements.

Background

Department recently bought a new contract management administration system

During the year, the Department bought a new Contract Management Administration System (CMAS) that allows users to create, edit and approve contracts. CMAS also links to IMAGIS (see Glossary) for the processing of contract payments. Since the intention is to move the administration of CMAS to the Alberta Corporate Service Centre for use by other departments as well, the Department modified it to meet many user requirements.

Criteria

CMAS should:

- be reliable and stable
- be user-friendly and efficient
- restrict access to authorized users
- have adequate controls to ensure contract data and contract payments are accurate and complete

- restrict approvals to appropriate officials
- be monitored by management

Findings

System not fully functional

A number of these criteria have not yet been satisfactorily met, as described below. These problems require resolution before CMAS can be considered fully functional and transferable to other departments.

High number of random errors

Specifically, CMAS is not sufficiently stable and it continues to generate a high number of random errors. In response, users have been duplicating efforts by maintaining parallel systems and paper records. This practice is inefficient and increases the risk of error, as parallel systems require manual data entry and reconciliations between the systems may not be done.

Data entry is inefficient

In addition, system modifications are required to improve the efficiency of the budgeting and forecasting process within CMAS. The current process requires many manual adjustments, increasing the risk of error. The Department's Issues Management Committee is aware of this problem and is developing a solution, which should be implemented in the next version of the product release.

Management reports are not available

Management cannot use system-generated reports detailing when contracts are created and approved, or when invoices are paid. Although CMAS can produce these reports, they are not reliable.

Concerns result from inadequate user acceptance testing

Many of these problems resulted from not clearly defining user needs at the beginning of the process and inadequate user acceptance testing. In the future, the Department should ensure user involvement occurs at all stages of system development. We understand the Ministry intends to conduct a post-implementation review of CMAS to identify practices that will improve the Ministry's ability to effectively implement systems in the future.

Implications and risks

Weaknesses should be corrected before CMAS is used by other departments

Other departments, such as Children's Services (page 69), are planning to implement CMAS to improve their contract management processes. It is therefore critical that inefficiencies, instability, and inability to produce management reports be corrected before CMAS is implemented elsewhere.

1.2 Policies and procedures for the *Training-On-the-Job* program

Background

Minister requested review of the TOJ program

In a letter dated January 22, 2002, the Minister asked us to review the Department's "screening process for prospective employers and [the] policy for terminating Training-on-the-Job contracts." As part of the *Skills Investments* core business, the objectives of the *Training-On-the-Job* (TOJ) program are to help Albertans increase their skills to obtain employment. Clients become employees for up to one year while their prospective employers are reimbursed for the job training provided. During 2002–2003, the Department spent $2.2 million on the TOJ program.

Clear program policies important

The successful delivery of the TOJ program depends on the coordinated efforts of Departmental staff, service providers and outside employers. Given the number of parties involved in delivering the TOJ program, it is important that clear policies exist to ensure Departmental expectations and program objectives are met.

Inconsistencies exist in employer screening process

We reviewed the Department's TOJ contract termination policies and found them to be satisfactory. However, we found that the TOJ employer screening policies were not clear and, as a result, we noted inconsistencies between regional offices in the interpretation and application of these policies. Staff differed about which employer eligibility criteria are considered mandatory, such as the ability to provide clients with continued employment, and about the level of file documentation required to support their employer assessments. As a result, for 17 of the 25 files we reviewed, we could not find sufficient evidence that the prospective employers had been screened against all of the TOJ program's eligibility criteria.

Differences occurring in the payment policies and procedures

We also noted that differences exist between regional offices in the interpretation of Departmental policies for paying TOJ employers. The Department had established a policy requiring that regional staff verify all invoices from employers before payments are authorized. However, not all regions had processes in place to meet this policy consistently. Furthermore, we found inconsistencies in TOJ contract payments regarding the reimbursement of client wages for statutory or civic holidays.

We recommended the Department clarify the TOJ policies

As a result of our review, in November 2002, we recommended that the Department clarify the *Training-On-the-Job* program policies and procedures, and ensure all regions consistently apply them.

Findings

Satisfactory progress

Since November 2002, the Department has made satisfactory progress in implementing our recommendation. The Department issued additional guidance to staff clarifying the program policies and documentation standards. Next year, we will review the results of the Department's compliance audits of this program to assess the success of the new guidance.

Implications and risks

Program objectives may not be met

If regional offices inconsistently apply the employer screening policies, TOJ program objectives may not be met. Selected employers may lack the ability and experience to offer valuable training and an opportunity for continued employment. Clients may be at risk if the Department has not verified that the employee meets the required labour, health and safety standards. Also, the Department is at risk of being sued by the client or other employees if an incident occurs and the employer does not have adequate liability insurance. Finally, employers may be paid for services that were not provided if regional offices do not properly verify the invoices before paying.

1.3 Conflict-of-interest guidelines

Background

Conflict-of-interest guidelines

The Department enters many different contracting relationships to deliver its *Skills Investment* programs such as the TOJ. In the majority of cases, the Department first enters into a contract with a service provider to evaluate the client's employment and training needs. This service provider then signs a subcontract with either an employer or a training provider depending on the client's assessed needs. As part of our review of the TOJ program, we examined the adequacy of the Department's conflict-of-interest guidelines as they apply to service providers who subcontract with employers and training providers on behalf of the Department.

Conflict-of-interest guidelines should be established

The Department should have conflict-of-interest guidelines for subcontracting relationships. The guidelines should require the contractor and subcontractor to disclose actual and potential conflicts of interest to the Department.

Public service *Code of Ethics* does not apply

The government's *Code of Conduct and Ethics for the Public Service of Alberta* does not apply to these subcontracting relationships and, at the time of our examination, the Department had not developed alternate conflict-of-interest guidelines for these situations. The Department did not receive confirmation from the service providers that they do not have potential or actual conflicts of interest with the employers or training providers.

Department should be notified of potential conflicts of interest

There may be valid cases, especially in small communities, when the service providers may enter into contracts with related or other parties with whom they have a personal interest because these parties offer the required services. However, to ensure the placement is appropriate, the Department should ensure service providers first declare and then obtain approval to enter into such contracts.

Department needs conflict-of-interest guidelines

In November 2002, we recommended that the Department incorporate conflict-of-interest guidelines into the contract manual policies and procedures for all programs involving service providers.

Findings

Satisfactory progress

The Department has made satisfactory progress implementing our recommendation. The Department issued additional TOJ program guidance that defines conflict of interest and offers several examples. In addition, the TOJ contracts now stipulate that employers must declare relationships if potential conflicts of interest exist. Next year, we will review how the Department is monitoring for conflict-of-interest situations in the TOJ program. Also, we understand in the upcoming year the Department intends to examine the existing conflict-of-interest clauses in its service provider contracts for programs other than the TOJ. We will review any resulting changes during the next audit cycle.

Implications and risks

Subcontracting decisions could be based on personal interests

In the absence of disclosure requirements and guidance, the Department may be unaware of conflicts of interest between two external parties subcontracting to deliver services on behalf of the Department. Clients could be placed in training or employment positions that are not in their best interests, or the Department's. Also, the Department may not obtain the best value from a contract when decisions are based on personal interests.

1.4 Compliance with the Skills Development Program (SDP)

Background

Department spent $155 million on SDP

During the 2002–2003 fiscal year, the Department spent $155 million on the SDP to provide eligible low-income, unemployed or under-employed people with training that leads either to employment or further training. Under the SDP, the Department pays a tuition fee per student to approved training providers who are either public providers, such as post-secondary colleges, or private providers. The training providers play a significant role in the delivery of the SDP. They are required to place students in appropriate courses, monitor student attendance and assess progress to ensure training needs are met.

Criteria

Department should monitor SDP training providers

The Department should have a plan, based on a risk assessment of the training providers and the program, to monitor training providers' compliance with the terms of the SDP. Once a plan is developed, the Department should monitor the training providers and correct any deficiencies.

Findings

Satisfactory progress

The Department is making satisfactory progress in implementing our recommendation that it improve the procedures to monitor compliance by training providers with the terms of the *Skills Development Program* (2002—No. 27).

Some compliance weaknesses exist

As it has done in prior years, the Department hired a consultant to review 18 of the 200 training providers during the year. The 18 were not selected based on a risk assessment of the program and at the time of our audit, only two of the 18 reviews had been finalized. Nevertheless, the two reviews identified compliance weaknesses and the results were essentially the same as prior year audits of other training providers. The Department has taken steps to correct the issues identified, in one case, suspending funding until compliance can be demonstrated.

Department plans to increase monitoring

The Department acknowledges the need to increase the monitoring of the SDP training providers and is planning to hire a consultant to take on a more expanded role by October 2003. The consultant will prepare a plan based on a risk assessment of the program and the training providers, and then will conduct the monitoring. We will review the plan and the results of the consultant's monitoring during the next audit cycle.

Implications and risks

Training providers may not be providing required services

Without effective monitoring and follow up, training providers may not comply with the terms of the SDP. The Department does not have assurance that students are receiving adequate instruction and training, and that training providers are spending the funding appropriately.

1.5 Security of client information

Background

Department should restrict access to client information

Last year, we noted we would follow up on our prior year recommendation (2001—No. 21) that the Department restrict access that training providers have to client information on the Career Assistance Information System (CAIS). We had also recommended that the Department monitor enquiries to sensitive client information to assess whether they are appropriate.

Findings

New system will resolve concerns

The Department is making satisfactory progress in implementing our recommendation. Management is still replacing CAIS with a new system that will resolve the access concerns. The new system's implementation has been delayed to accommodate program changes arising from the new *Income and Employment Supports Act* (passed but not yet proclaimed into force). We will revisit this recommendation during our next audit cycle, after the new system has been implemented.

Implications and risks

Risk of breaching FOIP Act

Unauthorized access to client records could result in breaches of the *Freedom of Information and Protection of Privacy Act*.

1.6 Controls to protect data

Department's computer systems service provider working to obtain SysTrust certification

The Department has an outsourcing agreement with a private service provider to manage the Department's main financial and non-financial computer systems. Last year, we recommended that the Department obtain assurance on the effectiveness of controls in the outsourced environment. This year, the Department made satisfactory progress by collaborating with the Departments of Children's Services and Health and Wellness to initiate a SysTrust review of the control environments at their common service providers. The SysTrust review identified a number of areas where the Departments' outsourced environments are not presently meeting SysTrust certification criteria. We understand the Departments have been working with the outsourcer to resolve these deficiencies and obtain SysTrust certification by the end of the calendar year. We will assess progress in the next audit cycle.

1.7 Business resumption planning

Ministry's BRP on schedule

Last year, we recommended that the Ministry establish and test a business resumption plan (BRP). Satisfactory progress has been made during the year to implement this recommendation. The Ministry is on schedule with the timelines established by the Ministry of Municipal Affairs; the BRP will be completed by March 31, 2004. We will review the completed BRP during our next audit cycle.

2. Financial statement audits

Ministry understating its capital assets

Our auditor's report on the Ministry financial statements has one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

2.1 Recording the Long Term Disability Insurance liabilities

Ministry now recording LTDI liabilities

Last year, we recommended the Ministry record the government's share of the accrued benefit liabilities for the two multi-employer Long Term Disability Income Continuance Plans. The Ministry implemented our recommendation by recording the amounts in its March 31, 2003 financial statements.

3. Specified auditing procedures

No exceptions

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

4.1 Workers' Compensation Board (WCB)

4.1.1 Economic loss payments

Recommendation No. 25

We recommend that the Workers' Compensation Board (WCB) strengthen controls in its claim management system for economic loss payments.

Background

ELP introduced in 1995

WCB introduced its economic loss payment (ELP) program in 1995. ELP compensates injured workers for a loss of earnings if an injury results in compensable permanent work restrictions that cause a permanent impairment of earnings capacity. To receive an ELP award, the injured worker must qualify based on criteria such as medical status and pre- and post-accident earnings. WCB's case managers review ELP cases 36 months after their award to see if the injured worker's circumstances have changed and the award should be adjusted.

ELP is a significant part of WCB's business

At December 31, 2002, the liability for ELPs was $823 million; this represents 23% of the WCB's total claim benefit liabilities of $3.5 billion. ELP payments in past years have been significant:

Year	**Payments (in millions)**	**Number of awards**
2000	$ 41.3	347
2001	90.2	667
2002	145.7	933

Criteria

Policies and procedures governing the qualification, calculation, and management of ELP workers should be in place and followed. Decisions regarding ELP should be consistent and timely. Calculation of awards should be accurate and based on accurate data.

Findings

Too many ELP awards in recent years

During our 2002 financial statement audit, we examined the controls in the WCB's claim management system. In addition, we reviewed the work of the WCB's internal and external actuaries. We learned that, in recent years, the WCB has placed too many injured workers on ELP benefits. A significant but unknown number of current ELP beneficiaries should be receiving temporary awards.

Reviews identify ELP operational issues

We discussed these issues with senior management, who confirmed that issues remain to be resolved. WCB itself conducted two internal ELP reviews that identify key operational concerns. For example:

- 11% of ELPs implemented in 2002 were premature or implemented when no entitlement should have been awarded.
- Work restrictions that form the basis of the ELP claim were not always permanent.
- Earnings and/or position used for ELP calculations were inaccurate.
- Temporary benefits may be paid through ELPs, as evidenced by the higher than expected recovery rate after the 36 month review period.

WCB resolving operational issues

Both studies resulted in recommendations to resolve these operational weaknesses. The recommendations address procedural and training issues identified during the reviews. Management has undertaken a number of initiatives:

- A monthly report will monitor the number of ELPs established, by occurrence year.
- Manager's approval will be required for zero based ELPs (economic loss payments where injured workers are incapable of recovering even a portion of their pre-accident earnings).
- Management will undertake quality assurance reviews of ELP policy application.

Implications and risks

If ELP classification and calculation are not accurate, the WCB may pay inaccurate benefits to injured workers and charge incorrect costs to employers. The processing of ELPs also impacts the assumptions used to determine the claim benefit liability. The actuary needs a consistent history of the ELP program to make reasonable assumptions in determining claim benefit liabilities.

4.1.2 Financial statements

From 1995 through 2001, a private sector accounting firm audited WCB's financial statements. Due to a change in the *Workers' Compensation Act*, we now perform the WCB's financial statement audit. We issued an unqualified auditor's opinion on the financial statements of the WCB for the year ended December 31, 2002.

4.1.3 An alleged fraud at WCB

We are working with WCB to identify control improvements

In June 2003, WCB filed a statement of claim against a case manager and an injured worker. The claim alleges that the two defrauded WCB of approximately $300,000. A criminal investigation is proceeding. We are working with WCB as it reviews the circumstances surrounding this alleged fraud. WCB is analyzing data to see if other cases may exist and is strengthening controls in its claim management system. We will work with WCB as it deals with the effects of this case.

4.2 Unqualified auditor's reports

We issued unqualified auditor's reports on the audits listed in section 4.2 of Scope.

Infrastructure

Summary: what we found in our audits

1. **Systems**
   The Ministry should improve systems and procedures in the following areas:

   1.1 The Ministry should strengthen its processes for managing construction grants—see page 181.

   1.2 The Ministry needs to improve the security of government buildings and the safety of people who use them—see page 187.

2. **Financial statements**
   We have one reservation of opinion on the Ministry's financial statements—see page 193.

3. **Specified auditing procedures**
   We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 193.

Overview of the Ministry

The Ministry consists of the Department of Infrastructure.

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:

- ensure efficient planning, design, construction, rehabilitation, operation, maintenance, and land management of government-owned infrastructure
- support the provision of health care, learning, community service facilities and seniors' lodges
- manage central services

Ministry spent $819 million

In 2002–2003, the Ministry spent $819 million primarily on the following programs:

	(millions of dollars)
School operation and maintenance	324
Constructing and upgrading school facilities	81
Constructing and upgrading health care facilities	26
Management of properties	298
Swan Hills Treatment Plant	29

Ministry received $35 million

The Ministry's revenue from sources external to the government in 2002–2003 was $35 million, of which $25 million was from operating the Swan Hills Treatment Plant.

For more detail on the Ministry, visit its website at www.infras.gov.ab.ca.

Scope: what we did in our audits

Three parts to our audit

1. We followed up on our previous recommendations on business case analyses, contract management, conflict of interest, infrastructure management systems, long-term capital asset plans, and health and safety risks at PSI (post-secondary institutions) facilities. We also examined the Ministry's systems for managing construction grants, physical security in government buildings and the Swan Hills Treatment Plant operating contract (the contract). Our review of the contract did not reveal any significant findings.

2. We audited the Ministry's financial statements for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Systems findings

1.1 Construction grants

1.1.1 Terms and conditions of construction grants

Recommendation No. 26

We recommend that the Ministry of Infrastructure communicate, and require grant recipients to formally accept, the terms and conditions of construction grants. The terms and conditions should include:

- **an accountability framework, including roles and responsibilities**
- **the consequences of failing to adhere to the terms and conditions**
- **reporting requirements**
- **the Ministry's right to audit**

Background

The Ministry provides construction grants to school jurisdictions, regional health authorities and post-secondary institutions. During the year, the Ministry paid construction grants totalling $109 million.

Criteria

Agreements between the Ministry and grant recipients should:

- establish terms and conditions
- clearly define recipient's roles and responsibilities
- establish adequate levels of accountability without unduly constraining the flexibility of recipients to optimize the use of their resources
- specify the consequences of failing to adhere to grant conditions
- include reporting requirements
- include repayment procedures if the recipients default
- include the Ministry's right to audit

Findings

Accountability needed for school jurisdictions

The Ministry includes the terms and conditions for school capital projects funding in an appendix to the funding letter to the school jurisdictions. However, the terms and conditions do not include the following provisions:

- an accountability framework, including roles and responsibilities
- consequences of failing to adhere to the terms and conditions
- reporting requirements
- Ministry's right to audit

Also, the Ministry does not require the school jurisdictions to formally accept these terms and conditions.

Approval process needed for all RHAs

Except for the major capital projects approval process for Capital Health and the Calgary Health Region, the Ministry has not established an accountability framework for regional health authorities. Further, although the approval process includes documents that describe the Ministry's standards and requirements, it does not specify the consequences of non-compliance. Also, the approval process does not contain any compliance reporting or auditing requirements. Management informed us that it is updating its reporting and auditing requirements. It is also considering applying the approval process to other regional health authorities.

Ministry should prescribe conditions for PSI projects

Currently, post-secondary institutions (PSIs) receive a letter informing them of the amount and purpose of a grant. In the sample we selected for review, the only condition was "to work closely with Alberta Infrastructure and to report on how the funds were used."

Implications and risks

Failure to have written agreements reduces the level of accountability for the grant recipients. There is a risk that grant recipients may not build or sign construction contracts according to the Ministry's standards and requirements. The Ministry may therefore not receive value for money on capital projects.

1.1.2 Monitoring of construction grants

Recommendation No. 27

We recommend that the Ministry of Infrastructure strengthen its monitoring processes for construction grants.

We also recommend that the Ministry make all construction grant payments through the Consolidated Cash Investment Trust Fund (CCITF) bank account.

Background

Ministry does not know how much of $2 billion in grants is unspent

The Ministry makes capital grants to school jurisdictions, health authorities and post secondary institutions (grant recipients). The grants can be funded in instalments, which match the actual expenditures. In recent years, the Ministry has funded up to 90% at the time of project approval. Between April 1, 2000 and March 31, 2002, the Minister made advance payments of over $2 billion in construction grants. The Ministry does not have records that show how much of the grant funding remains unspent.

Different levels of monitoring

The Ministry's involvement and accountability process varies from substantial involvement in health facilities capital projects to virtually no involvement in post-secondary institution capital projects. School jurisdiction capital projects fall somewhere in between.

Criteria

To adequately monitor construction grants, the Ministry should:
- hold grant recipients accountable for the use of grant funds
- require recipients of multiple instalments to demonstrate continuing eligibility
- assess progress against agreed objectives before releasing instalments
- monitor the use of grants
- ensure grant funds are segregated and adequately protected from loss or misuse

Findings

Ministry's monitoring process not risk based

The level of board governance, management experience and contracting processes varies from entity to entity. Smaller school jurisdictions, regional health authorities, and post-secondary institutions may lack necessary management and contracting experience and require more detailed monitoring. Therefore, the Ministry should consider the following factors in monitoring the use of funds by grant recipients:
- the size of the grant
- the capability of the recipient, including the strength of their governance processes and depth of management experience
- the strength of the recipient's contracting processes

Health facilities

Ministry closely monitors RHAs

The Ministry works closely with the regional health authorities to ensure that they are aware of the Ministry's requirements. The Ministry is involved as an advisor with the selection of the prime consultant. The Ministry provides templates for the RFP (request for proposals) document and is invited to the interview process to sit as an observer to ensure that the process is fair and equitable and will result in value for money. Also, the Ministry deposits the grants in the CCITF account to segregate and protect grant funds from loss or misuse.

Fast-tracked capital project cannot demonstrate value for money

In the four sample items we selected, there was evidence of detailed monitoring including attendance at project meetings, review of site inspection reports and review of change orders. In one case, there were significant change orders and cost overruns. Management informed us the issues did not result from a lack of monitoring but the need to fast track the process. The project was not ready to be tendered when the Ministry gave its approval. Because of the incomplete pre-tendering process, the Ministry is unable to demonstrate that change orders and cost overruns resulted in value for money.

RHAs submit quarterly reports

The regional health authorities are required to submit quarterly reports on expenditures. These reports are reviewed and approved by Ministry personnel. Upon completion of the project, the health authorities submit a final statement of funding and expenditures. For major capital projects, an independent external audit is also required.

School facilities

Ministry does not review change orders

For school jurisdictions, the Ministry currently focuses on monitoring the planning stages to ensure that the schools will be built to its standards and within the established budget. The monitoring includes review of design documents, drawings and specifications before tendering. Construction contracts greater than $100,000 require Ministry approval. The Ministry may receive change orders but Ministry personnel do not review them. Sometimes the projects may have a project manager assigned to more closely monitor the processes.

We reviewed a sample of seven grants to school jurisdictions and noted:

Ministry needs to document its review of grants

- There was no documentation to support the Ministry's receipt and review of design and specification documents or to show that the school jurisdictions acted on the Ministry's advice. In one case, a school jurisdiction ignored comments provided by Ministry on the submitted documents.

Ministry approval not obtained

- Two school jurisdictions contracted with construction managers without the Ministry's prior approval for contracts greater than $100,000.

Ministry should protect grant funds from loss

The Ministry does not pay grants to school jurisdictions through the consolidated cash investment trust fund bank account. If the Ministry did so, it would ensure the grant funds are segregated and adequately protected from loss or misuse because the Ministry controls the bank account.

Ministry does not obtain compliance reports

The Ministry does not require regular reporting of costs against budget and forecast total costs. The Ministry requires school jurisdictions to submit a statement of final costs signed by the superintendent. It reviews these reports but does not require them to be audited by an external auditor. Management informed us the Ministry is currently reviewing its monitoring processes.

Post-secondary facilities

The Ministry does not impose any approval or other requirements for construction grants to post-secondary institutions.

PSI projects not approved

Implications and risks

If monitoring processes are inadequate or not complied with, there is a risk that facilities will fail to meet the Ministry standards and projects will not be cost-effective. There is also a risk that grants may not be used for the purpose intended or in accordance with the project approval.

If monitoring processes are not based on risk assessments, then Ministry resources will not be used in the most cost-effective manner.

The lack of documentation results in the Ministry being unable to demonstrate it properly monitored grant recipients.

1.1.3 Construction management contracts

Recommendation

We recommend the Ministry of Infrastructure implement a process to ensure that contracts with construction managers protect the Ministry's interests as a funder and are cost-effective.

Background

School jurisdictions and regional health authorities use construction managers to provide contract management services during both the design and construction phases of a project. During the construction phase, the construction manager enters into contracts with the sub-trades and assumes the construction and warranty risks of the project. The construction manager typically obtains an "all risks" insurance policy.

Criteria

- The contract with construction managers should contain a sound framework for contract management and accountability.
- The risks, roles and responsibilities of the parties should be clearly defined. The contract should identify who bears all significant risks—the contractor or the contracting organization.

Findings

We reviewed a sample of eight projects undertaken by school jurisdictions. Five of the eight projects used construction managers. We noted the following issues with the construction management agreements:

Contract revisions should be evidenced in writing

- In one instance, a school jurisdiction failed to detect that the construction manager did not have a performance bond in place until the project was largely completed. In this same instance, the school jurisdiction arranged with the construction manager to revise the contract after the manager contracted with all the sub-trades. Under the original contract, the construction manager acted as an agent. The purpose of the revised contract was to change the role of the manager from an agent to a contractor. The changed contract transferred the construction and warranty risks to the contractor. The school jurisdiction did not ratify the contract. Accordingly, the sub-trade and insurance contracts provided for in the revised contract may not have been valid.

Non-compliance with Ministry policy

- The Ministry's policy does not permit construction managers to be involved in any actual construction except in certain limited cases. We noted one instance where the RFP document stated that the construction manager could bid on any part of the project. We also noted other instances where the construction managers completed work that the Ministry's policy does not permit.

Fast-tracked contract cost $700,000—No evidence of benefit

- The Ministry indicated that the perceived benefits of a construction management contract are that it is more cost effective and allows for fast tracking of a project. The Ministry has not tested these assertions and there was evidence in one project that there was a $700,000 (on an original contract value of $8 million) premium for fast tracking.

Contract wording not clear

- The wording of one contract was not clear enough to transfer the construction risk to the construction manager.

Implications and risks

Grant recipients may suffer losses if construction management contracts do not protect the recipients' interests. Also, the Ministry may not be receiving value for money.

1.2 Physical security of government buildings

Recommendation No. 28

We recommend that the Ministry of Infrastructure, working with other ministries, improve the security of government buildings and the safety of people who use them by:

- **identifying resources to lead and coordinate security related activities for and between various ministries**
- **establishing and communicating a minimum standard of security for all buildings**
- **implementing increased levels of security on buildings determined by risk and security assessments to require enhanced protection**
- **monitoring compliance with recommendations made in risk and security assessments**

Background

User department responsible for own security needs

The government owns, rents or leases approximately 2,300 buildings including the legislative buildings, ministry office buildings, cultural facilities, housing units, educational institutions, data processing centres, health and research centres, and storage facilities for everything from confidential electronic or hard copy information to machinery and supplies. Generally speaking, physical security is a delegated activity, with user departments expected to identify their own level of required security to accommodate their particular program activities.

Criteria

Buildings should be categorized by risk

The government should have plans in place so that:

- minimum security standards for all government buildings have been established and communicated to stakeholders
- higher security standards commensurate with risk have been determined and risk assessments are current for all buildings, and compliance with these standards is monitored

Findings

Ministries share responsibility for safety and security

Although day-to-day security procedures are the responsibility of tenant departments, the Ministries of Infrastructure and Solicitor General share the responsibility of ensuring that buildings have adequate systems to safeguard assets, employees and visitors. Also, the Ministry of Municipal Affairs administers a security management program for some critical government buildings that, if damaged or destroyed, would have a significant impact on Albertans

In its role as property manager for the government, the Ministry is responsible for the physical security of most government buildings and has developed a draft document to advise user departments how to assess their security risk. The Solicitor General is responsible for the physical security of the courts, correctional facilities and some high-profile government buildings. The Solicitor General also monitors intrusion alarms for some government buildings and provides a security consulting service to all tenant departments upon request.

No overall program to assess and coordinate security

There is no lead ministry with overall responsibility to ensure reasonable standards of security are being met. Also, there is no proactive program to assess security risks in non-critical government buildings without specific user department requests and no compliance review process to determine if recommendations for security enhancements are implemented.

Examples of security weaknesses

We assessed the physical security of seven significant government buildings in various Alberta communities. We chose these facilities to include a broad range of use, such as working space for employees, visits from the general public, storage of confidential information, distribution of valuable material and completion of sensitive or confidential operations. We noted numerous examples of:

- exterior door locks that had not been re-keyed for at least five years and in one instance at least twenty years
- un-monitored, outdated or non-existent alarm and video systems
- non-functioning lighting in sensitive areas
- inadequate perimeter security
- inadequate information systems physical security
- unlocked and un-staffed loading and storage areas

Generally speaking, site facility managers respond to security issues only when a concern is raised. Security was most often not a high priority and formal security/risk assessments were the exception rather than the rule. There was no evidence of any formal reporting procedure or strategic planning for security related issues at the Ministry level.

Implications and risks

Inadequate security puts people and property at risk

- Government owned or leased assets, such as buildings, furniture, fixtures, vehicles, aircraft and other equipment may be damaged, destroyed or lost by environmental disaster, accident, criminal, or terrorist activities.
- Employees or visitors may be injured or killed as a result of environmental disaster, accident, criminal, or terrorist activities.

- Decentralized and fragmented security programs will be inconsistent, fail to benefit from economies of scale relative to purchases of equipment and consulting expertise, and fail to take advantage of emerging technologies.

1.3 Business cases analyses

Background

Two years ago, we recommended that the Ministry establish and enforce its requirements for preparing business case analyses, including the preparation of a public sector comparator for partnership projects. We reported that establishing and enforcing the requirements for preparing business cases ensures decision makers have the necessary information on the cost effectiveness of all reasonable alternatives.

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendation. Last year, a cross-ministry committee chaired by the Deputy Minister of Infrastructure developed draft standards and a template for the preparation of business cases.

Business case guidelines prepared

This year, the government issued the template and business case guidelines. The Ministry also provided training for preparing business cases to all managers in the public sector.

Ministry prepares business case for projects over $2.5 million

The Ministry has prepared guidelines as to when a business case must be prepared. The Ministry will prepare business cases for all projects, including systems developments, estimated to cost more than $2.5 million. The Ministry also requires school jurisdictions, regional health authorities, and post-secondary institutions to prepare business cases for projects costing more than $5 million.

Draft P3 guidelines prepared

The government's Capital Planning Initiative Task Force on Public-Private Partnerships, led by the Ministry of Transportation and supported by the Ministry, has prepared draft guidelines for preparing business cases for public-private partnership (P3) projects. These guidelines require business cases to include a public sector comparator.

Auditor General provided comments on P3 guidelines

At the request of the task force, we provided our comments on the draft P3 guidelines. Once these guidelines are completed, we will report our conclusion on their effectiveness in a future report. Our preliminary conclusion is that the business cases prepared using these guidelines will provide sufficient information for making cost effective business decisions.

Business case prepared for Calgary courthouse

The Ministry has also prepared a business case for building the new courthouse in Calgary. The Ministry will update the business case in the fall of 2003 after reviewing the responses to its request for proposals.

1.4 Contracting management

Background

Last year, we recommended that the Ministry strengthen its contract management processes by:

- ensuring contracts for consulting services are awarded through a process that is open and fair and gets good value
- ensuring that all contracts contain provisions required to protect the Ministry
- evaluating consultant and contractor performance
- establishing a policy for renewing property management contracts without competition

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendation. The Ministry has established a consultant selection policy for all consulting services. This policy requires management to award all contracts over $100,000 through competitive bidding processes after formally evaluating the proposal for price and qualification. The Ministry's Contracts Review Committee approves all sole sourced contracts and contract amendments exceeding $10,000.

Contracts contain provisions to protect Ministry's interest

The Ministry has prepared a draft standard contract for architectural services. The draft contract contains provisions to protect the Ministry's interests. The Ministry intends to use the relevant provisions of this standard contract for all consulting contracts. It is also developing an internal process of quality control of consultant contracts.

Consultants and contractors will be evaluated

The Ministry has prepared draft forms for evaluating consultants and contractors. The Ministry will review the evaluation with consultants and contractors and require them to sign the evaluation forms. The Ministry is using the draft forms in a pilot project. The Ministry will capture the performance evaluations in a registry it is developing.

Policy for property management contracts issued

The Ministry has issued a policy statement for renewing property management contracts. The statement outlines a process that must be undertaken and documented before the contract can be renewed. The process includes a review of the original contract terms and contractor performance.

1.5 Conflict of interest

Background

Last year, we recommended that the Ministry require its employees to disclose annually in writing:

- that they understand and agree to follow the *Code of Conduct and Ethics for Public Service of Alberta*
- any potential conflicts of interest they have

We also recommended that the Ministry ensure that consultant contracts contain a conflict-of-interest provision.

Findings

Consultant contracts contain conflict-of-interest provision

The Ministry has implemented our recommendation. During the year, the Ministry provided training to managers on the code of conduct. Managers were required to provide the information to their staff. Employees now sign an annual declaration, which states that they have read the Code and agree to be bound by it. The training provided to the managers and the annual declaration has resulted in employees notifying the Ministry of conflicts of interests that they may have.

The Ministry has revised its standard contract with architects. The revised contract contains a conflict-of-interest clause, which requires consultants to declare that they have no monetary interest in the business of any third party that causes, or would appear to cause, a conflict of interest in performing the services under the contract.

1.6 Infrastructure management systems

Background

In our *1999–2000 Annual Report*—No. 27, we recommended the Ministry review the plans for developing the Ministry's infrastructure management systems and satisfy itself that the most cost-effective systems are being developed and that it has the resources to successfully develop and implement the systems. On page 163 of our *2000–2001 Annual Report*, we reported the Ministry had improved its processes for developing infrastructure management systems. We therefore narrowed our recommendation to help the Ministry focus on its implementation. In 2000–2001, we recommended that the Ministry formalize the requirement for the preparation of a comprehensive business case analysis to support systems development decisions.

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendation. It has established a policy that requires any systems development costing over $2.5 million to be supported by a business case using the government's business case template.

Business case prepared for Buildings and Lands Infrastructure Management Systems

The Ministry engaged a consultant to evaluate the various alternatives for completing Buildings and Lands Infrastructure Management Systems. The business case contains all the elements required by the government's business case guidelines and templates including a risk assessment and a comparison of the anticipated cost under each of the options. Appropriate management levels reviewed and approved the business case.

1.7 Capital plans

Background

Last year, we recommended that the Ministry implement processes to ensure that capital plans received from other ministries, school jurisdictions, post secondary institutions and health authorities contain the information it requires to prepare its long-term strategic plans.

Findings

Ministry's progress satisfactory

The Ministry has made satisfactory progress in implementing our recommendation.

Health and school facilities capital plan are adequate

Last year, we reported that the Ministry had prepared capital manuals for health capital projects and school facilities. The manuals require regional health authorities and school jurisdictions to submit long-term capital plans. These manuals also prescribe the form and contents of capital plans. We reviewed capital plans from three regional health authorities and seven school jurisdictions and found they contain all the significant information required by these manuals.

Planning information from PSIS is sufficient

PSI capital plans do not contain all the information the Ministry needs to prepare its capital plan. However, the Ministry has prepared a template that it requires PSIs to complete. The template contains the information missing in the capital plans.

Ministries still do not submit long-term capital plans

The Ministry still does not require other ministries to submit long-tem capital plans. However, it has prepared a draft Project Capital Funding Request Form. This form, when issued, would require ministries to provide detailed information about planned capital projects over a five-year period consistent with the ministry capital plans and delivery processes. We encourage the Ministry to issue the form before the start of next planning cycle in fall.

1.8 Critical health and safety risk

Background

Last year, we again recommended that the Ministry obtain sufficient accountability information from post-secondary institutions (PSIs), to allow it to evaluate the annual progress made towards meeting critical health and safety needs for facilities.

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendation. It now requires the PSIs to complete a template outlining their priority expansion and replacement projects. They are required to provide information including the purpose (condition, use, functionality and health and safety) of capital projects included in the capital plans. The accountability reports now report the amount of spending on health and safety.

2. Financial statement audit

Reservation of opinion

We audited the financial statements of the Ministry for the year ended March 31, 2003. Our auditor's report contains one reservation of opinion resulting from a departure from Canadian generally accepted accounting principles.

Site remediation cost not recorded

In accordance with corporate government accounting policies, the Ministry reports the costs of site remediation in the period in which the remediation work is performed, rather than in the periods in which the liabilities arose. The effect of this departure from generally accepted accounting principles is significant.

3. Specified auditing procedures

One exception found

We found one exception when we completed specified auditing procedures on the Ministry's performance measures.

Data for client satisfaction survey not available

There was no data available for one measure, *Client Satisfaction Survey*. Therefore, we were unable apply specified auditing procedures to this measure.

Innovation and Science

Summary: what we found in our audits

1. **Systems**
   The Ministry should improve systems and procedures in the following areas to ensure it effectively delivers services at reasonable cost:

   1.1 Government of Alberta SuperNet project management—the Ministry should prepare a plan to test SuperNet components—see page 198.

   1.2 Alberta Government Integrated Management Information System (IMAGIS)—the Ministry should:
   - optimize the use of IMAGIS—see page 199.
   - implement an accountability framework for IMAGIS—see page 201.

   1.3 Government of Alberta Central Information Technology (IT) Environment—the Ministry should improve the central IT environment by:
   - coordinating reviews of control environments at service providers—see page 204.
   - establishing a systems development methodology—see page 205.

2. **Financial statements**
   We issued one reservation of opinion on the financial statements of the Ministry and Department—see page 206.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**
   4.1 We issued unqualified auditor's opinions on the financial statements of the Alberta Science and Research Authority, iCORE, Alberta Research Council and Alberta Heritage Foundation for Medical Research for the year ended March 31, 2003.

4.2 We have included an additional paragraph in the auditor's report on the financial statements of the Alberta Heritage Foundation for Science and Engineering Research—see page 207.

Overview of the Ministry

The Ministry's 2002–2005 business plan describes two core businesses:

Two core businesses

- Research and Development
- Corporate Information and Communications Technology

Department ASRA, iCORE, ARC and the Heritage Foundation

The Ministry consists of:

- the Department and
- the Alberta Science and Research Authority (ASRA).
  ASRA has two wholly owned subsidiaries, the Alberta Research Council Inc. (ARC) and iCORE Inc.

Also, the Alberta Heritage Foundation for Medical Research (AHFMR), the Alberta Foundation for Health Research (AFHR) and the Alberta Heritage Foundation for Science and Engineering Research (AHFSER) report through the Minister of Innovation and Science to the Legislative Assembly. These entities are not consolidated in the Ministry financial statements.

Ministry spent $201 million

In 2002–2003, the Ministry spent $201 million, mainly on the following:

	(millions of dollars)
Research and Development	140
Corporate Information and CommunicationsTechnology	61

Ministry received $50 million

The Ministry received $50 million from sources external to government, consisting mainly of contract revenue from research and development projects.

For more information on the Ministry, visit its website at www.innovation.gov.ab.ca.

Scope: what we did in our audits

Four parts to our audit

1. We followed up on the following prior year's recommendations that the Ministry:

- resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework (2002—No. 31).
- assign strategic and contractual oversight responsibilities as specified under Article 6 of the IMAGIS Master Agreement (2002—No. 32).
- coordinate reviews of control environments at service providers (2002—page 171).
- develop a systems development methodology (2002—No. 33).

We also:

- reviewed the contract management controls for the Alberta SuperNet project
- reviewed the use of IMAGIS
- examined the IMAGIS general control environment at the service provider and at the ministries
- reviewed the Alberta Government Network that provides communication infrastructure to all ministries

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements of the Alberta Science and Research Authority, the Alberta Research Council Inc., iCORE, the Alberta Heritage Foundation for Medical Research, Alberta Foundation for Health Research and Alberta Heritage Foundation for Science and Engineering Research for the year ended March 31, 2003.

Findings and recommendations

1. Systems findings

1.1 Alberta SuperNet

Recommendation

We recommend that the Ministry of Innovation and Science prepare a plan for testing completed components of SuperNet.

Background

SuperNet is a network to connect communities across Alberta

The Alberta SuperNet is a high-speed, high-capacity broadband network that links an estimated 4,700 government offices, schools, health-care facilities and libraries in approximately 422 Alberta communities. As at March 31, 2003, the government spent $124 million to build SuperNet.

Construction still in progress

The scheduled completion date for SuperNet is July 24, 2004. We will continue to audit the management of the SuperNet project until completion.

Criteria

Our evaluation was based on eight criteria as recommended in the Project Management Institute's publication, *Project Management Body of Knowledge*.

Effective project and contract management should:

1. determine the users' needs, how their needs will be met, and verify whether they are met
2. plan, schedule, and control the project's activities
3. plan, estimate, and control the project costs
4. ensure the project is well managed and satisfies the stakeholders needs
5. make the most effective use of people in the project, including stakeholders
6. ensure the timely and complete creation, movement and storage of information
7. identify, evaluate, and respond to risks
8. decide what to contract for, tender and select the best contractor, and negotiate and manage the contract

Findings

Ministry has not completed a plan to test Supernet

The Ministry has substantially met the criteria for project management. The forth criteria was not fully met because the Ministry has not completed a plan to test Supernet components. The Ministry must test completed components of the system to ensure standards are met and stakeholders' needs are satisfied. One segment was completed at year-end.

Implications and risks

System may not function as intended

Without an adequate plan for testing the completed network, the Ministry risks implementing a system that does not function as intended.

1.2 Alberta Government Integrated Management Information System (IMAGIS)

Government's main financial system is IMAGIS

IMAGIS (a customized version of PeopleSoft) is the system that ministries use to process financial transactions, including payments for supplies and services and payroll. It also produces the accounting records that ministries rely on to prepare their financial statements. Alberta Finance uses IMAGIS to prepare the province's consolidated financial statements.

A service provider hosts and operates IMAGIS under an outsourcing agreement with the Government of Alberta. Under the agreement, the service provider maintains the PeopleSoft application.

The following discussions relate to this system.

1.2.1 IMAGIS use

Recommendation

We recommend that the Deputy Minister of Innovation and Science work with other deputy ministers to optimize the use of IMAGIS.

Background

10 modules in use

Implementation of IMAGIS began in 1997 and by 2001 ten modules were in use in government. However, much of the business of ministries that could be processed through these ten IMAGIS modules is processed through other applications.

Criteria

Management should minimize the cost of operations by using available resources (specifically computer applications) efficiently and effectively.

Findings

IMAGIS not fully used

Usage, expressed by module, ranges from 28% to 100% for government departments. The Ministry has recognized the potential for improving controls and saving costs through increased use of IMAGIS. Some preliminary activities have been initiated to identify opportunities and to determine whether IMAGIS is capable of performing functions presently performed by ministries using other programs.

The IMAGIS Project Office established a team to identify and reduce inconsistencies in the use of IMAGIS. However, the project was postponed in 2003 when the Government upgraded IMAGIS to PeopleSoft Human Resources version 8.3 and PeopleSoft Financials version 8.4. The upgrade offers improved functionality for many of the modules that are not widely used in government.

Plan needed to determine potential benefits of IMAGIS

While an assessment of IMAGIS capabilities to identify new opportunities is an important first step in the process, a plan should be developed to help ministries identify potential benefits from the increased use of IMAGIS. Such a plan should focus on the following factors:

- The results of the assessment of IMAGIS capabilities must be reviewed with ministries. Ministries must then compare the cost effectiveness of the upgraded IMAGIS system against the existing legacy systems. The scope for ministries to improve their administration methods should form part of this review.

- The Ministry could assist other ministries by setting criteria to evaluate the cost effectiveness of legacy systems in comparison to IMAGIS, when IMAGIS has similar capabilities. The Ministry of Infrastructure has prepared a business case template to help ministries evaluate proposed projects or proposals to change programs or services or supporting management and administration systems. The cost-benefit analysis section of the template should prove useful when setting criteria.

- The Ministry must work jointly with other ministries to apply the criteria.

- A process will need to be established which covers:
  - reviewing of results of cost-effectiveness evaluations
  - communicating decisions to stakeholders
  - appointing a steering or management group to oversee the conversion when IMAGIS is to replace existing systems

Implications and risks

Without a structured approach, the government may fail to obtain full benefits from the IMAGIS system.

1.2.2 IMAGIS governance

Recommendation No. 29

We again recommend that the Ministry of Innovation and Science formalize and implement an effective accountability framework for IMAGIS (2002—No. 32).

Background

2001–2002 recommendation repeated

We reported last year that the conditions of Article 6 of the Master Agreement with the service provider were not met (2002—No. 32). Article 6 requires that an IMAGIS Management Team (IMT) be formed with representation from government and the service provider. The government envisioned that IMT would provide key leadership to the IMAGIS project, including strategic and tactical direction. It would also be the primary means of communication between the government and the service provider.

We were advised that a document, titled *IMAGIS Activity in a Shared Services Environment*, had been prepared in draft form and was awaiting formal approval. In response to our recommendation, last year management undertook to finalize completion of this document as quickly as possible and they told us that the accountability of each party involved in IMAGIS would be clarified. Last year, management also agreed to review the requirements of Article 6 to determine if an amendment to the Master Agreement was required.

Criteria

The Ministry should have an effective accountability framework with clearly established responsibilities and reporting relationships for effective control, operation, use and refinement of a system as complex, diverse, and critical as IMAGIS.

Findings

Progress is not satisfactory. Action to set up the IMT remains outstanding. In the absence of the IMT, other cross-ministry and technical committees that have other primary responsibilities are attending to IMAGIS-related operational and functional issues.

This arrangement is inefficient, and IMAGIS continues to lack the necessary strategic leadership and contract oversight focus, which an IMT would provide.

We have also been unable to obtain documentation identifying the unique roles and responsibilities of the many parties in IMAGIS. The parties include the Ministry of Innovation and Science, Alberta Corporate Service Centre, the Deputy Ministers Council, the Senior Financial Officers Council, the Human Resource Directors Council and numerous other committees for implementation, upgrades and maintenance. In addition, there are other parties, such as the service provider, who are also responsible for processing government information and protecting government information assets.

Management has asked an external consultant to review the governance and decision-making processes surrounding IMAGIS.

Implications and risks

IMAGIS may not meet government needs

Without an appropriate accountability framework in place, IMAGIS may not reflect the Ministry's requirements for controls, expectations and needs.

The Ministry will be entering into a new contract with a service provider in the next fiscal year. It is important that management resolve this concern before finalizing the new contract with a service provider.

1.2.3 IMAGIS control environment

Background

Last year we recommended that the Ministry of Innovation and Science resolve deficiencies in the IMAGIS environment and strengthen the overall IMAGIS control framework (2002—No. 31).

SysTrust certification not met in prior year

In 2001–2002, management initiated a SysTrust review of the IMAGIS control environment at the service provider. The IMAGIS system did not receive SysTrust certification because significant deficiencies existed in the control environment.

Action plan developed

The government and the service provider developed an action plan to resolve deficiencies in policies, procedures and practices in the current year. Resolution of deficiencies that related to the PeopleSoft application was deferred until after the government upgraded IMAGIS to the current version of PeopleSoft.

This year, the SysTrust auditors performed a follow up of the deficiencies that were to be resolved in the current year.

Criteria

The Ministry should use reliable systems to process critical business information. The CICA provides the following five criteria to determine if a system is reliable:

1. The system should be protected against unauthorized access (both physical and logical).
2. The system should be available for operation and use as committed or agreed.
3. System processing should be complete, accurate, timely and authorized.
4. Personal information obtained as a result of e-commerce should be collected, used, disclosed, and retained as committed or agreed.
5. Corporate information designated as confidential should be protected as committed or agreed.

Findings

Progress is satisfactory

Progress on this recommendation is satisfactory. The interim review by the SysTrust auditors confirmed that many of the deficiencies they found last year have been resolved. Their review found that the following deficiencies remain to be resolved:

Review identified deficiencies in key areas

- **Business continuity plan**—there is no formal business continuity plan in place to document how IMAGIS would recover from a systems failure. The government is currently developing a comprehensive business continuity plan that will include IMAGIS.

- **Security strategy for outsourced operations**—the Ministry uses a document provided by the service provider as the security policy for the IMAGIS processing environment. The guidelines should be consistent with the cross-ministry IT security policy.

- **Standards for ensuring regulatory compliance**—there is no monitoring for regulatory compliance with provincial and federal privacy standards.

- **Security configuration of system equipment**—generic IDs are used to access important master files. While management has indicated that generic IDs are required, there is a risk users cannot be held accountable for their actions. The decision to use generic IDs should be reviewed and approved at an executive level.

- **Data used for testing purposes**—unscrambled data is being used for testing purposes. Scrambled data must be used for testing purposes to protect confidential information.
- **Internet based architecture**—although the design of Internet-based security around IMAGIS is strong enough to prevent breaches from outside the government network, it is vulnerable to unauthorized access from within the government.

Implications and risks

Integrity of data is at risk

If the Ministry does not resolve deficiencies in the IMAGIS control environment, data that is used for key business decisions may not be available or could be susceptible to unauthorized modification, resulting in incomplete or inaccurate management information.

1.3 Government of Alberta Central Information Technology (IT) Environment

1.3.1 Co-ordination of reviews of control environments at service providers

Recommendation

We again recommend that the Ministry of Innovation and Science coordinate reviews of control environments at service providers (2002—page 171).

Background

2001–2002 recommendation repeated

Many ministries have outsourced their IT processing, management, or operational activities to private sector service providers. Management needs to obtain assurance on the adequacy of control procedures at these service organizations.

The government has many contracts with IT service providers; however, there are only eight service providers that supply significant IT services.

In many cases, the same service provider is being used by a number of ministries, and unless reviews of service providers are coordinated, there could be unnecessary duplication of reviews, resulting in waste. Last year, we recommended that the Ministry of Innovation and Science coordinate reviews of control environments at service providers.

Criteria

To minimize duplication, reviews of service providers should be coordinated when possible.

Findings

Progress not satisfactory

Progress on this recommendation is not satisfactory. In response to our recommendation, the Ministry has asked a private sector firm of chartered accountants to provide guidelines that can be used to determine when different types of review engagements are appropriate (for instance, CICA Section 5900 reviews as compared to SysTrust reviews). We understand that the Ministry is waiting for these guidelines to be approved, after which they will begin working on an initiative to coordinate reviews of common service providers. Differentiating between the appropriateness of Section 5900 reviews and SysTrust reviews will not deal with our recommendation. While this analysis will assist the Ministry to coordinate reviews, work needs to be done to identify opportunities to coordinate reviews.

This year, two separate Systrust reviews were conducted on the same service provider at approximately the same time: one for the IMAGIS service provider and another for three ministries that used the same service provider.

Implications and risks

Unnecessary duplication of reviews

Unless the Ministry coordinates reviews of service providers, unnecessary waste and duplication of reviews will occur.

1.3.2 Systems development

Recommendation No. 30

We again recommend that the Ministry of Innovation and Science, with the cooperation of other ministries, implement a systems development methodology (2002—No. 33).

Background

2001–2002 recommendation repeated

We made this recommendation in 2001 and repeated it in last year's *Annual Report* (2002—No. 33). We had noted that systems were being developed by vendors using a variety of systems development methods that might not be acceptable to the Ministry. Last year, we found more examples that confirmed the urgent need for guidance in this area. For instance, ExClaim![2], the redeveloped ExClaim system, had deficiencies that would have been identified and corrected with an appropriate development methodology.

Criteria

The Ministry should have a system development methodology to ensure that an information system is reliable, robust, efficient, and effective.

Findings

Progress not satisfactory

Progress on this recommendation is not satisfactory. Although management has previously indicated that they recognize the need for an officially endorsed systems development methodology, they have focused on increasing discipline and developing methodologies around business case development and project management. This year, we identified deficiencies in the development of a Contract Management Administration System. The use of an appropriate system development methodology would likely have prevented many of the problems that occurred.

The Ministry is considering establishing a Project Management Office (PMO) with cross-ministry responsibilities. Its responsibilities will include the establishment of a consistent set of cross-ministry systems development methodologies.

Implications and risks

Flawed systems may be developed

Without an approved set of systems development criteria, flawed systems may be developed. In some cases, they may even pose a security risk. The government will have unnecessary administrative overhead from using poorly designed and inadequately tested systems, as well as additional costs to fix the systems on an ad hoc basis.

2. Financial statement audits

Capital assets are understated

Our auditor's reports on the Department and Ministry financial statements have one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

4.1 Financial statement audits

Our auditor's report on the financial statements of ASRA, ARC and iCORE contained unqualified opinions.

4.2 Clarification of Legislation—Alberta Heritage Foundation for Science and Engineering Research (AHFSER)

Background

Last year, we recommended (2002—No. 34) that the Minister of Innovation and Science seek an amendment to the *Alberta Heritage Foundation for Science and Engineering Research Act* to clarify the meaning of "real value of the Endowment Fund over the long term."

Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that:

> *The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term.*

We reported that the Foundation's legislation does not define the meaning of "real value of the Endowment Fund over the long term." "Real value" could be interpreted in a variety of ways, including market value, inflation proofed assets or cost.

Findings

Satisfactory progress

The Ministry is making satisfactory progress. The Ministry has indicated that it will seek an amendment to the Act to provide the clarification we have recommended.

Our auditor's report on the financial statements of the Foundation again reported that we were unable to determine if transfers from the Endowment Fund were made in compliance with the Act.

We will continue to monitor progress until an appropriate amendment is implemented.

International and Intergovernmental Relations

Summary: what we found in our audits

1. **Systems**
   The Ministry should improve its intergovernmental agreements systems to comply with section 11 and schedule 6 of the *Government Organization Act*—see page 210.

Qualified auditor's report

2. **Financial statements**
   We have one reservation of opinion on the financial statements of the Ministry—see page 212.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Overview of the Ministry

Core business

The Ministry's 2002–2005 business plan describes its core business as *providing leadership in the management of Alberta's international and intergovernmental relationships*.

Key services

Some key services include:

- advancing Alberta's interests through intergovernmental negotiations and discussions
- coordinating Alberta's strategies on international and intergovernmental relations
- providing strategic advice and policy analysis to Alberta ministries and other clients
- obtaining, disseminating and analyzing information for Alberta ministries and other clients

Corporate structure

The Ministry consists of only the Department of International and Intergovernmental Relations.

Ministry spending and funding

In 2002–2003, the Ministry spent $6 million. The Ministry receives no revenue from sources external to the government.

For further details about the Ministry, visit its website at www.iir.gov.ab.ca.

Scope: what we did in our audits

1. We audited the systems that the Ministry uses to monitor intergovernmental agreements.
2. We audited the financial statements of the Ministry for the year ended March 31, 2003.
3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Intergovernmental agreements

Recommendation

We recommend that the Ministry of International and Intergovernmental Relations enhance its intergovernmental agreements systems to comply with section 11 and schedule 6 of the *Government Organization Act*.

Background

Ministry's legislative mandate

Section 11 and schedule 6 of the *Government Organization Act* set out the Ministry's legislative mandate for intergovernmental agreements. Section 11 requires the Minister to approve all intergovernmental agreements. Schedule 6 requires the Ministry to "be a party to the negotiation of all proposed intergovernmental agreements" and to "conduct a continuing review of all intergovernmental agreements".

Scope of the task

To fulfill its responsibilities, the Ministry must identify and monitor intergovernmental agreements between Alberta's ministers, agencies, and officials and other Canadian and foreign governments. This central control mechanism ensures that all intergovernmental agreements support the Alberta government's goals and principles.

Criteria

Six groups of audit criteria

The Ministry should have a system to satisfy its legislative mandate. The Ministry should:
- define and fulfill its role in negotiating intergovernmental agreements
- be prepared: staff should be trained, goals and principles should be defined, and other ministries should understand how the systems work
- identify, classify, and track potential intergovernmental agreements that develop at other ministries
- approve all intergovernmental agreements
- undertake a continuing review of existing intergovernmental agreements
- develop accountability structures for its intergovernmental agreement responsibilities

Findings

Four of six criteria met

The Ministry successfully met four of the six criteria. We found that systems should be improved to:
- define and fulfill the Ministry's role in negotiating intergovernmental agreements
- identify, classify, and track potential intergovernmental agreements

How the system works

To identify intergovernmental agreements under negotiation, the Ministry relies on personal contacts between its own staff and those at its client ministries and agencies. When the Ministry learns of an intergovernmental agreement, it decides whether the agreement is routine (requiring little or no Ministry involvement) or non-routine (requiring involvement). The Ministry files signed copies of agreements as they are received during the year. The Ministry records key summary information on its automated records management system called RecFind. The Ministry confirms the completeness of the RecFind inventory by circulating a year-end list to its clients. The Minister then approves the annual inventory.

Ministry should clearly define client base

The *Government Organization Act* refers to intergovernmental agreements by "the Government of Alberta or a Minister, agency or official of the Government of Alberta". The Ministry has not defined the entities this section of the Act applies to. As a result, not all agencies, boards, and commissions are canvassed for intergovernmental agreements.

Agreements should be identified earlier

The Ministry should be more proactive in seeking out, obtaining, and recording intergovernmental agreements. To be a party to negotiations, the Ministry would, at a minimum, have to be aware of proposed intergovernmental agreements. As the system now operates, the Ministry adds most intergovernmental agreements to RecFind through its year end lists. For the year we audited, the Ministry added 17 agreements to RecFind during the year; it added 70 more through the year end list process. While individual Ministry staff members may be aware of many of these 70 agreements, the Ministry's formal system did not capture these agreements under development as they were negotiated during the year.

Data entry should be timely and accurate

Timely and accurate data entry is important. There was a long time lag to record intergovernmental agreements on the RecFind system. Our sample of 11 agreements showed that data entry took an average of four months. As well, our sample showed that even the limited data on RecFind can be inaccurate. For example, one agreement was misclassified on the system.

Some progress

We made this recommendation to the Ministry in November 2002. The Ministry had made some progress in implementing the recommendation. The Ministry has:

- sought and received a legal opinion from Alberta Justice on the application of section 11 of the *Government Organization Act*
- developed a comprehensive contact list of key staff in Alberta Government that deal with intergovernmental agreements
- launched an internal process to review the nature and frequency of communications with department and agencies

Implications and risks

Without effective systems at the Ministry to manage the intergovernmental agreements requirements of the *Government Organization Act*, government entities could enter into agreements that do not reflect the Alberta government's goals and principles.

2. Financial statement audits

Our auditor's report on the Ministry financial statements has one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

Justice and Attorney General

Summary: what we found in our audits

Maintenance enforcement system needs to be improved

1. **Systems**
   The Ministry needs to improve its systems for the *Maintenance Enforcement Program* to ensure maintenance payments are paid to the appropriate party—see page 215.

2. **Financial statements**
   We have two reservations of opinion on the financial statements of the Ministry—see page 216.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures—see page 216.

PTO needs to determine an appropriate SRF balance

4. **Other entities that report to the Minister**
   The Office of the Public Trustee (PTO) needs to determine the appropriate balance to retain in the Special Reserve Fund (SRF) and prepare a plan to deal with any excess funds—see page 217.

Overview of the Ministry

Four core businesses

The Ministry's 2002–2005 business plan describes four core businesses:
- Prosecutions
- Courts
- Legal services to government
- Justice services to Albertans in need

Ministry spent $241 million

The total operating expenses for the Ministry were $241 million in 2002–2003, comprised mainly of the following:

	(millions of dollars)
Court services	93
Legal services	64
Support for legal aid	28
Motor vehicle accident claims	26
Public trustee	8
Medical examiner	5

Ministry received $102 million

Total revenue for the Ministry was $102 million in 2002–2003. The Ministry's main revenue sources are:

	(millions of dollars)
Fines and related late payment penalties	43
Fees	35
Transfers from the federal government	9

Trust funds

A significant aspect of the Ministry's role is the management of funds held on behalf of others. The balances in these accounts total approximately $508 million. Of these, trust funds administered by the Office of the Public Trustee total $465 million. For more detail on the Ministry, visit its website at www.gov.ab.ca/just/.

Scope: what we did in our audits

Four parts to our audit

1. We did further work on the system used by the Ministry to process maintenance enforcement payments.

2. We audited the financial statements of the Ministry for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We performed the following work on the Office of the Public Trustee, an entity that reports to the Minister:

    4.1 We followed up on our previous recommendation on the Office of the Public Trustee's management of the Special Reserve Fund.

4.2 We audited the financial statements of the Office of the Public Trustee for the year ended March 31, 2003.

Findings and recommendations

1. Systems findings—Maintenance Enforcement Program

Recommendation

We recommend that the Ministry of Justice and Attorney General obtain sufficient information from the Ministry of Children's Services to ensure maintenance enforcement payments for children in care are paid to the appropriate party.

Background

Last year, we reviewed the process between the Ministry of Justice and Alberta Human Resources & Employment (AHRE) to ensure that maintenance enforcement payments are paid to the appropriate party. We reported that, since 1986, approximately $1.4 million of maintenance enforcement payments had been incorrectly kept by the Crown instead of being paid to the intended recipient.

This year, we reviewed the process between the Ministry of Justice and Attorney General and the Ministry of Children's Services (ACS) to ensure maintenance enforcement payments are paid to the appropriate party. Under the *Child Welfare Act*, the court can order that maintenance payments be forwarded to the Child and Family Services Authority (CFSA) responsible for a child who is under its direct care.

Criteria

Accurate and timely information should be available to ensure maintenance enforcement payments are paid to the appropriate party.

Findings

Satisfactory process now in place between the Ministry and AHRE

We found that the Ministry paid the maintenance payments that were inappropriately retained, as reported in last year's *Annual Report*, to the appropriate party. The actual payments amounted to $1.3 million. We also found that the Ministry and AHRE have implemented a process to ensure maintenance enforcement payments are now paid to the appropriate party.

Ministry not receiving information from Children's Services

This year, we found a similar problem between the Ministry and the Ministry of Children's Services. We expanded our follow up review to an examination of the system used by the Ministry to ensure maintenance enforcement payments received by the Ministry for children in care, are forwarded to the appropriate individual. We found that the Ministry has not been receiving sufficient information from the Ministry of Children's Services to enable it to determine the appropriate recipient.

An exception occurred in December 2002, when the Ministry and the Ministry of Children's Services compared their records to identify matching clients. This process produced a match for 701 files out of a total of 9,873 Children's Services files. The results of this process indicate that maintenance payments may have been forwarded to individuals or held by the Ministry when they should have been sent to a CFSA responsible for the child. Alternatively, payments may have been forwarded to the CFSA that should have been forwarded to another individual. The Ministry has not done any work to quantify the extent of any errors.

The Ministry and the Ministry of Children's Services are developing processes to ensure they exchange adequate information. We will follow up progress on this matter next year.

Implications and risks

Without appropriate information processes, maintenance payments may go to the wrong parties.

2. Financial statement audits—two reservations of opinion

Liabilities not recorded and capital assets understated

Our auditor's report on the financial statements of the Ministry has two reservations of opinion. The Ministry did not record an $81.7 million liability for personal injury claims under the *Motor Vehicle Accident Claims Act* that are likely to result in settlement. Additionally, the Ministry understates capital assets but since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

4.1 Special Reserve Fund

Background

The Public Trustee's Office (PTO) pools and invests certain clients' money in at fund called the Common Fund. The PTO also maintains a Special Reserve Fund (SRF). The PTO pays interest to its clients whose money it holds in the Common Fund at rates the Public Trustee sets by regulation. The regulated interest rate is not the same as the actual rate of return earned by these funds.

PTO maintains Special Reserve Fund in addition to the Common Fund

The SRF operates as a contingency fund by absorbing surpluses or providing for shortages between regulated earnings paid to clients and actual earnings.

Last year (2002—page 183), we reported that the SRF balance had grown significantly and the PTO needed to determine the appropriate balance to retain in the SRF and prepare a plan to deal with the excess funds.

Criteria

Adequate information should exist to allow management to determine the level of funding necessary to meet the legislative purposes of the SRF.

Findings

PTO has retained consultant to evaluate various economic scenarios

The PTO is making satisfactory progress in determining the SRF funding level. The PTO has retained a consultant to determine the funding levels required under various economic scenarios. We understand that a decision about the SRF funding level will be made by the end of 2003. We will monitor the Ministry's progress in implementing the recommendation.

Implications and risks

Balance in SRF now $50 million

At March 31, 2003, the balance of the SRF was $50 million. This amount was created at the expense of past clients who received regulated earnings that were less than the actual interest earned by the Common Fund and the SRF.

4.2 Financial statement audit

Our auditor's report on the financial statements of the Public Trustee's Office for the year ended March 31, 2003 was issued without reservation.

Learning

Summary: what we found in our audits

1. **Systems**

The Department should:

Improve core measure

- improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities—see page 223

Measure effectiveness of programs

- periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students—see page 224

Require compliance with policy

- require public post-secondary institutions to comply with the tuition fee policy, and should clarify the methodology for applying the policy—see page 226

2. **Financial statements**

Auditor's Report reserved

2.1 We again issued an adverse opinion on the Ministry financial statements because the statements do not consolidate the financial statements of school jurisdictions and the public post-secondary institutions. We also issued a reservation of opinion on the Ministry, Department and the Alberta School Foundation Fund financial statements because related party transactions weren't properly described. The Ministry and Department financial statements had a reservation of opinion because the liability for student loans issued was overstated by $35 million—see page 230.

2.2 The Department should improve its grant processes—see page 231.

2.3 The Department needs to determine the amount of net assets that should be retained by the Alberta School Foundation Fund—see page 232.

3. **Specified auditing procedures**

We found no exceptions when we applied specified auditing procedures in 2002 on the Ministry's performance measures. Our work in 2003 on the Ministry performance measures is in progress.

4. Other entities that report to the Minister

Entities should improve controls

4.1 We noted internal control weaknesses and financial statement reporting issues when we reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings of the 72 school jurisdictions—see page 233.

4.2 The University of Alberta should:
- improve its system of internal control—see page 235
- implement a policy to define its actions in the event of allegations of fraud—see page 236

4.3 The University of Calgary should improve its internal control systems—see page 238.

4.4 Mount Royal College should increase efficiency in the preparation of internal and external reporting and increase the accuracy of the reporting—see page 241.

4.5 The Southern Alberta Institute of Technology should:
- perform monthly analysis of budget-to-actual or budget-to-forecast variances to monitor performance throughout the year—see page 242.
- improve the business case analysis for major projects—see page 243.

Overview of the Ministry

The Ministry's 2002–2005 business plan describes three core businesses:
- basic learning (kindergarten to grade 12)
- adult learning
- apprenticeship and industry training

The Ministry consists of the Department of Learning and the Alberta School Foundation Fund.

Ministry spent $4.8 billon

In 2002–2003, the Ministry spent approximately $4.8 billion. The largest expenses are:

	(millions of dollars)
Operating support to public and separate schools	2,793
Funding to post-secondary institutions	1,107
Teachers' Pension Plan	374
Early Childhood services	172
Support for post-secondary learners	124

Ministry received $1.4 billion

The Ministry's revenue was approximately $1.4 billion in 2002–2003. Major sources of revenue are:

	(millions of dollars)
Provincial Education Property Taxes	1,113
Government of Canada	116

For more information on the Ministry, visit its website at www.learning.gov.ab.ca.

Scope: what we did in our audits

1. We examined the Department's system used to monitor the public post secondary institutions' compliance with the tuition fee legislation.

   We also followed up on our previous recommendations.

2. We audited the financial statements of the Ministry, Department, and the Alberta School Foundation Fund for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We performed the following work on entities that report to the Minister:

   4.1 We reviewed, under section 19(4) of the *Auditor General Act*, the audited financial statements and audit findings for the 62 school jurisdictions and 10 charter schools for the year ended August 31, 2002.

   We audited the financial statements of the Northland School Division No. 61 for the year ended August 31, 2002.

4.2 We audited the financial statements for the year ended March 31, 2003 of the following entities:

- Athabasca University
- University of Alberta and its related entity, PENCE Inc.
- University of Calgary and its subsidiaries/related entities, the Arctic Institute of North America, the University of Calgary Foundation (1999), University Technologies International Inc., and the Olympic Oval/Anneau Olympique
- University of Lethbridge

We audited the financial statements for the year ended June 30, 2002 of the following entities:

- Alberta College-Edmonton
- Alberta College of Art and Design
- Bow Valley College
- Fairview College and its related entity Fairview College Foundation
- Grant MacEwan College
- Grande Prairie Regional College and its related entity Grande Prairie Regional College Foundation
- Keyano College
- Lakeland College and its related entity the Alberta Fire Training School
- Lethbridge Community College
- Medicine Hat College and its related entity Medicine Hat College Foundation
- Mount Royal College and its subsidiary/related entities Mount Royal College Day Care Society, Mount Royal College Foundation and Rockyview Aviation Fuels Ltd.
- Northern Alberta Institute of Technology
- Northern Lakes College
- NorQuest College
- Olds College and its related entities Olds College Foundation and the Olds College Centre for Innovation
- Portage College
- Red Deer College
- Southern Alberta Institute of Technology
- Students' Association of Mount Royal College

Findings and recommendations

1. Systems findings

1.1 Affordability of the learning system

Recommendation No. 31

We recommend that the Department of Learning improve one of the core performance measures (public satisfaction with the affordability of the learning system) that reports its progress in delivering high quality learning opportunities.

Background

The Department of Learning's first goal in its 2002–2005 business plan is *High Quality Learning Opportunities*. The Department includes as outcomes of this goal:

- the learning system is affordable; and
- financial need is not a barrier to learners participating in learning opportunities.

Annual survey

To measure whether the outcomes are met, the Department conducts an annual survey that asks Albertans if they agree that the learning system is within the means of most Albertans. This information is reported as a core measure in the Department's annual report.

Criteria

Core performance measures should help the Legislative Assembly assess the Department's performance by providing relevant information on results achieved by programs delivered through its core businesses.

Findings

Fewer Albertans think learning system is affordable

In 2003, 52% of Albertans surveyed agreed the learning system was within the means of most Albertans. This is down from 63% in 2002 and 75% in 2001.

Measuring too much at once

Through this question, the Department is trying to measure affordability for three different parties (students, taxpayers and government) and for three different components (basic education, post-secondary and apprenticeship). Since the question tries to measure so many different aspects of affordability, stakeholders can't tell what caused the decrease in results.

Reporting only indirect core measure

The Department doesn't directly measure and report what is happening in the learning system. The survey is an indirect measurement. Further, the Department says that other more direct indicators contradict part of the survey results and show that post-secondary education is affordable to students.

Implications and risks

Without appropriate core performance measures for this goal, the Legislative Assembly may make incorrect conclusions about the Department of Learning's performance.

1.2 Tuition Fee Policy

1.2.1 Measurement of results

Recommendation No. 32

We recommend that the Department of Learning periodically measure whether the tuition fee policy and its related programs are effective in making post-secondary education affordable to students.

Background

One of the principles of the tuition fee policy is that financial need should not be a barrier to participation in post-secondary education by qualified and motivated students. This is also an outcome for the *High Quality for Learning Opportunities* goal. The student loan and scholarships programs, along with the grants that the Department pays to post-secondary institutions, also contribute to the goal.

Many factors will influence whether eligible students attend post-secondary institutions. One of these is whether there is space available. Other important ones include parental encouragement and cost.

Criteria

The Department should periodically measure whether the tuition fee policy and its related programs are making education affordable to students.

Findings

1. While the Department collects information on the effectiveness of its programs, it needs more.

   As mentioned previously, the Department measures annually, as a core measure, public satisfaction with affordability of the overall learning system. The Department has also studied participation in post-secondary education by high school graduates.

Changes have occurred since the Departmental study was performed

However, the participation study predates the drop in results for the core measure. Also, since this study was completed, significantly higher tuition fees increases have been announced for certain post-secondary programs.

2. The Department should make sure the process to measure the effectiveness of these programs takes into account the following:

- The income level at which financial need is a barrier to participation in learning opportunities.

Bases for selected income levels not clear

In 2000, the Department surveyed 1999–2000 Alberta high school graduates to determine whether they were enrolled in post-secondary education. The survey also determined their reasons for attending or not attending post-secondary education. The study defined lower income high school graduates as those having a household income under $40,000. Higher income graduates were defined as having a household income of $70,000 or more.

We were unable to obtain information that supports the use of either number.

- The effect of rising tuition fees on the participation in post-secondary education of eligible students at different income levels.

Participation rates for students eligible for colleges or technical institutions not measured

The 2000 study found that of high school graduates who were defined as being eligible to attend university, 80% of those from lower income backgrounds (household incomes of under $40,000) were enrolled in post-secondary education, as compared to 83% of those from higher income backgrounds (household incomes of $70,000 or more). While the study indicated a participation rate by income level for graduates eligible for university, it didn't provide a participation rate by income for students meeting the eligibility requirements of other post-secondary programs.

- The effect of rising tuition fees on student participation in post-secondary programs with significant tuition fee increases.

Impact of fee increases on participation needs to be measured

Both the University of Alberta and the University of Calgary have announced significant increases in tuition fees for certain faculties such as medicine and law. The Department should measure the impact of fee increases on participation. This could include examining the numbers or proportions of qualified students who applied and were accepted but did not attend because of financial reasons.

Implications and risks

Without periodically measuring the effectiveness of the tuition fee policy and related programs, the Department may not achieve its intended outcome.

1.2.2 Tuition Fee Policy compliance

Recommendation No. 33

We recommend that the Department of Learning require public post-secondary institutions to comply with the Tuition Fee Policy. We also recommend that the Department clarify the methodology for applying the Policy.

Background

The Tuition Fee Policy (the Policy) restricts tuition fees by requiring that tuition fee revenue subject to the Policy cannot exceed 30% of the net operating expenditures of a public post secondary institution (the cap calculation). The Policy also restricts the amount of the annual average tuition fee increase to an amount prescribed by the Department (the allowable increase calculation).

The 30% tuition fee limit is also currently set out in the various Acts that establish post-secondary institutions. To implement the 30% limit and allowable annual increase, the government has established regulations and the Department has included guidance in the policy statement and issued manuals. These documents contain the details on methodology for each calculation.

The Policy applies to all public post-secondary institutions established in the Province of Alberta except the Banff Centre for Continuing Education.

Criteria

1. Data collected by the Department should be reliable, timely and calculated in accordance with the requirements of the Policy.

2. The Department should ensure public post secondary institutions comply with the Policy. When the Policy is difficult to administer or is unclear, the Department should clarify the methodology for applying the Policy.

Findings

The calculation in the Policy needs to be clarified

Each institution and stakeholder needs to have a common understanding of the Policy to determine compliance. The following are some of the instances that demonstrate a lack of clarity in the Policy.

- Universities are not deducting all of the sponsored research costs in the calculation of net operating expenditures.
- The Department advised us that tuition fee revenues in the first year of a new program are not to be included in the cap calculation. However, this has not been documented in the Policy and is not being followed by all institutions.
- The treatment of prior period adjustments to figures used in the cap and the allowable increase calculations is not indicated in the Policy.
- While the Policy requires that certain fees be excluded from the cap calculation, it doesn't make allowances for situations where the fee for an exempt service is included in the overall tuition fee. This results in institutions that don't charge separate fees having a higher cap calculation than those that charge the separate fee.

The Policy is difficult to administer

Departmental officials advised us that the Policy was difficult to administer. Examples of situations that give rise to this difficulty include:

- The Policy requires that the annual increase in fees for instruction cannot exceed average amount per student prescribed by the Department.

  For 2001 and 2002, based on the forms filed with the Department, some institutions appeared to be in non-compliance. However, the Department advised us that in its opinion all but one were in fact in compliance. For example, they stated that information filed with plans showed that Board approved increases at the start of the academic year were within limits. The Department believes difficulties arise in determining compliance when, for example, actual enrolments vary from planned enrolments and when actual results are converted from academic year to fiscal year as required for the final forms.

Calculation is not timely

  As the calculation of the actual annual allowable increase per student is done approximately 18 months after the institutions have approved the fees, the calculation is not timely enough for prompt action.

A college exceeded the limit for three years

The current tuition fee policy also does not specifically state consequences if an institution exceeds the annual fee increase. For example, a college implemented tuition increases over the allowable annual increase for three consecutive years. No action had been taken by the Department to ensure that the college complied with the Policy.

- Because the cap calculation is based on actual figures, the calculation is done after the institution's year-end. By the time a Board has determined that the institution is over the cap, the Board has already approved and implemented the increase for the following year. Depending on when the calculation is actually done, the institutions may have already approved and implemented an increase for the following year. For this reason, the Department advised us that they allow the institutions to be in non-compliance for at least one year following the year that non-compliance is discovered.

Implications and risks

Without a clear methodology and processes for the Department to ensure the Policy is being complied with, there is a risk that the policy objective may not be met.

1.3 Capital assets policy statement

Background

Previously we recommended the Department of Learning, in consultation with the Department of Infrastructure and the Department of Innovation and Science, provide an updated Capital Assets Policy statement to the public post-secondary institutions (2002—No. 38).

Findings

The Department of Learning has indicated this recommendation will be implemented by 2004–2005. Progress made to date in implementing this recommendation is satisfactory.

1.4 Career and Technology Studies

Background

School jurisdictions not complying with CTS requirements

In our *Annual Report* (2001—No. 30), we recommended that the Department of Learning improve its systems to ensure that school jurisdictions are complying with the requirements of the Career and Technology Studies program (CTS). We repeated this recommendation in 2001–2002 (page 190).

Findings

Progress is satisfactory

The Department's progress in implementing this recommendation is satisfactory. We will conclude that the recommendation has been implemented when we have evidence that school jurisdictions are complying with CTS requirements. It could take up to two years before the evidence is available.

1.5 Long-term capital planning

Background

In our *Annual Report* (2001—No. 31), we recommended that the Department of Learning improve its systems to ensure that long-term capital planning for school facilities is consistent with plans for the delivery of education. We repeated this recommendation in 2002—No. 35.

Findings

Recommendation implemented

The Department has implemented our recommendation. The Department now reviews both the capital and education plans and resolves any inconsistencies between the capital and education plans.

Capital and education plans reviewed and differences resolved

In the 2002–2005 comparisons of capital and education plans, all jurisdictions' plans were reviewed and 12 inconsistencies were identified and followed up. The follow-up resulted in either an addendum to the current capital plan or changes to the subsequent capital plan. The Department will conduct this review annually.

1.6 Risk management

Background

Department risk management framework needs strategies and resource allocations

In our *Annual Report* (2002—No. 36), we recommended that the Department of Learning establish a risk management process to improve the effectiveness of its control and monitoring activities. This was a continuation of a recommendation first made in our *Annual Report* (1999—No. 22). Specifically, we reported that the Department still needs to:

- design strategies to manage the risks identified by the Department
- allocate resources to areas of greatest risk
- measure, monitor and report on the effectiveness of the strategies to manage the risks

Findings

Progress is satisfactory

The Department has made satisfactory progress in implementing our recommendation. The Department has developed a risk management framework to identify and design risk mitigation strategies. The Department now must use the framework to assist in an allocation of resources and report on the effectiveness of risk mitigation strategies.

1.7 Charter School accountability

Background

In our *Annual Report* (2002—No. 37), we recommended that the Department of Learning determine what steps are needed to achieve charter school compliance with reporting requirements. This was a continuation of a recommendation first reported in our *Annual Report* (1999—No. 12).

Findings

Recommendation implemented

The Department has implemented our recommendation. The Department worked with the charter schools to improve the reporting of results on the attainment of charter goals in the Annual Education Results Reports (AERRs). The Department reviewed the education plans and AERRs submitted by each charter school.

Results reporting includes achievement of charter goals

In its initial review, the Department noted that 5 out of the 10 charter schools had high congruence between the measures for charter goals as stated in the education plans and the results reporting in AERRs. In cases where a one-to-one correspondence of measures between the plans and the results reports was lacking, the Department provided detailed analysis and guidance to the charter schools. In response, five charter schools subsequently submitted either revised AERRs or addendums to their AERRs. The Department now has information on charter school results to better support decisions regarding renewal of charters.

2. Financial statement audits

2.1 Auditor's report

Adverse opinion

We again issued an adverse opinion on the Ministry financial statements. The Ministry financial statements contain only the transactions of the Department and Alberta School Foundation Fund. Generally accepted accounting principles (GAAP) applicable to the Ministry require school jurisdictions and the public post-secondary institutions to be consolidated in the Ministry financial statements. The Ministry financial statements are not presented fairly. The Government of Alberta Annual Report section indicates the action planned by the government in response to this issue —see page 41.

The Ministry, the Department and the Alberta School Foundation Fund financial statements had a reservation of opinion because government accounting policy does not allow the school jurisdictions and public universities, colleges and technical institutes' transactions to be disclosed as related party transactions. In our opinion this is contrary to generally accepted accounting principles.

The Ministry and Department financial statements also had a reservation of opinion because the liability for student loans issued is overstated. This liability includes an estimate for loan remission entitlements for students who completed their studies before August 1, 2001. These students had a term certain period to apply for remission to receive it, and never did apply. An analysis performed by the Department indicates that the liability reported in the financial statements is overstated by $35 million. Since August 1, 2001, eligible students automatically receive remission on their loans; consequently, a similar overstatement of liability will not likely occur in the future.

2.2 Grant accountability

Recommendation

We recommend that the Department of Learning improve its grant processes.

Background

In addition to providing operating grants to post-secondary institutions, the Department periodically provides grants on the condition that they be used for a specified purpose.

Criteria

In managing conditional grants, the Department should:

1. follow up on grant accountability reports within a year after the funds are provided;
2. evaluate whether conditions have been met and program outcomes achieved;
3. take corrective action where grant conditions have not been met; and
4. redirect unused grant funds to a new purpose or recover and return them to the budget system

Findings

The Department has approved conditional grants before defining the nature and extent of the commitment or establishing accountability criteria:

Grant provided before needed without clear terms

- The Department provided $2.3 million in 2001 to the University of Calgary two years before the funds were needed. In 2002, the Department committed to annual grants of $2.3 million to the

University to cover costs associated with the purchase of a building without a clear description of what costs would be eligible.

Accountability requirements established after grant funds were spent

- The Department provided $28.4 million of Faculty Staff Attraction and Retention grants to institutions in 2001, but didn't establish accountability reporting requirements until 2002 at which point most of the funds had already been spent.

The Department has not ensured that realistic target dates are established by when the grant funds should be spent and program outcomes achieved:

The Department should establish deadlines for the use of grant funds

- The Department provided one-time Access grants of $14 million in 2000–2001 to the institutions without any deadline for the use of the funds. Without reasonable deadlines for the use of grant funds, the benefits of the grant may not be realized and surplus funds not returned or redirected.

Implications and risks

If the Department does not establish realistic targets and monitor the use of grant funds, grants may be paid to institutions before they are needed or unneeded funds may remain at the institutions instead of being recovered by the Department. These are funds that otherwise could be available to fund other program priorities.

2.3 Alberta School Foundation Fund net assets

Recommendation

We recommend that the Department of Learning determine the amount of net assets that the Alberta School Foundation Fund should retain.

Background

Net assets have accumulated to $65 million

The Fund collects school property taxes from municipalities and distributes them to school jurisdictions. The Fund's net assets are the accumulated excess of school property tax collections over distributions to school jurisdictions. That excess has accumulated to $65 million at March 31, 2003. A positive net assets position allows the Ministry to manage short term fluctuations in revenues, without adversely impacting school jurisdictions.

Net assets must be paid to schools

Under *the School Act*, the Fund's net assets cannot be used for any other government program. In short, they must be paid to schools.

Criteria

The Department should determine the net asset requirements of the Fund.

Findings

The Fund's net assets have accumulated since the Fund's creation in the mid 1990s. In discussion with management, we were unable to obtain information on what is a reasonable net asset position.

Implications and risks

Funds received may not benefit schools

In the absence of a clear understanding of the amount of net assets required to manage the Fund, there is the risk that more funds will be retained than needed.

3. Specified audit procedures

We didn't have any exceptions on the specified auditing procedures report provided in 2002 on the Ministry's performance measures. Our work in 2003 on the Ministry performance measures is in progress.

4. Other entities that report to the Minister

4.1 Review of school jurisdictions financial reporting

We have completed our examination of school jurisdictions' August 31, 2002 audited financial statements and management letters as required under section 19 (4) of the *Auditor General Act*. The following summarizes what we observed:

Three of 72 audit opinions qualified

1. Auditor's reports—of the 62 school jurisdictions and 10 charter schools, 3 (6 in 2001) received qualified auditor's opinions for the year ended August 31, 2002 as follows:
    - Two jurisdictions (3 in 2001) have scope limitations as the auditors were unable to verify the completeness of revenues derived from donations and fund raising activities.
    - One jurisdiction (2 in 2001) received a qualified opinion because a capital lease for computer equipment was not capitalized.
    - There was one qualification relating to employee future benefits in 2001 that was not repeated in 2002.

Results of school jurisdiction audits

2. Management letters—school jurisdiction auditors reported the following:
    - School-generated funds—21 school jurisdictions (25 in 2001) need to improve controls over the processes used to collect, record and report school-generated funds.

- Payroll and personnel management—18 jurisdictions (13 in 2001) need to improve controls over accuracy, completeness, proper recording of, and access to payroll information.
- Capital assets—15 jurisdictions (8 in 2001) need to improve the recording of capital assets.
- Purchases—15 jurisdictions (13 in 2001) need to improve controls such as implementation of the review and authorization processes over purchases and payments, retention of supporting documentation, and following the established policy of tendering for major purchases.
- Timeliness of financial recording—13 jurisdictions (12 in 2001) need to ensure bank reconciliations and related correcting entries, payroll reconciliations, accounting transactions, purchase orders and monthly financial statements are prepared or recorded on a regular and timely basis.
- Computer security—12 jurisdictions (8 in 2001) need to improve computer security including the implementation of access control, physical security controls, and environmental controls; segregation of incompatible functions; development of disaster recovery and business continuity plans; implementation of data back up and restoration procedures; development of comprehensive security policy and computer application policy manual; and the use of offsite storage.
- Segregation of duties—10 jurisdictions (5 in 2001) need to have segregation of duties over authorization and recording of transactions and custody of and accounting for certain assets.
- Policies and procedures—9 jurisdictions (10 in 2001) need to update or implement formal procedures and policies.
- Accounting issues—8 jurisdictions (none in 2001) need to address accounting issues such as valuation of long term investments, determining fair values of contributed materials, and following proper accounting policies relating to capitalization and amortization.
- Review of financial information—7 jurisdictions (10 in 2001) need to review financial information such as bank reconciliations and other financial information, journal entries to ensure that they are supported and authorized, and analyze variances between budget and actual expenditures.
- Cash management—7 jurisdictions (none in 2001) need to improve cash management processes and controls.
- Board approval—7 jurisdictions (none in 2001) need to ensure that the board approvals are obtained for matters such as board minutes; decisions such as transfer of reserves and the use of unrestricted surpluses; revised budgets and unbudgeted expenditures.
- Goods and Services Tax—5 jurisdictions (none in 2001) need to review their taxable sales regularly to determine if there is a need

to collect and remit GST, ensure GST calculations are reviewed to ensure accuracy, and file GST returns promptly.

The Department plans to meet with school jurisdictions over the coming year to make sure that significant problems are rectified.

4.2 University of Alberta

4.2.1 Internal control systems

Recommendation No. 34

Internal control needs improvement

We again recommend that the University of Alberta improve its system of internal control (2000—No. 35, 2001—No. 37 and 2002—No. 40).

Criteria

A system of internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. It should include a system of checks and balances to ensure that financial data is reliable.

Findings

Progress is unsatisfactory

At our meeting with the audit committee of the University at the conclusion of the financial statement audit, we reported the University had made unsatisfactory progress in improving its system of internal control. A comprehensive, organization-wide system of effective internal controls did not yet exist. Our assessment was that the University continued to be subject to considerable risk resulting from inadequate control systems. While some of the control weaknesses we found were new, some of the observations had been noted for three years. We have therefore repeated our previous year recommendation.

Recently, the President of the University told us that he considers this issue to be a priority and that steps have already been taken to rectify some of the weaknesses noted.

Areas requiring improvement

Here are some of the areas where we indicated controls should be improved:

Over-expended research accounts

- While the University had made certain improvement in controls over research accounts, over-expended balances amounted to $8.8 million (2002—$8.4 million) and numbered approximately 950 accounts.

Credit card bank reconciliations

- Bank reconciliations were not prepared on a monthly basis for the credit card bank accounts. These account reconciliations were at least three months in arrears at year-end.

Safeguarding of assets

- As noted in section 4.2.2, there were 6 instances within the past year where University employees or external parties allegedly misappropriated or attempted misappropriation of University assets.

Administrative policies

- The manual of administrative practices and policies had not been developed.

Collection of Capital Health accounts receivable

- The accounts receivable from the four main Capital Health Authority accounts amounted to $12.7 million at March 31, 2003 (2002—$14.4 million) of which approximately $3.9 million (31%) had been outstanding in excess of 90 days. Some of the balance was in dispute. Until we raised this issue, the University had not quantified the magnitude of the disputed items and therefore had not determined the potential magnitude of the uncollectible charges.

IT processes

- Some of the internal information technology processes also need to be improved. For example, the University needs to:
  - implement the information technology security policy
  - establish an information technology steering committee
  - complete business continuity planning and disaster recovery planning

Outsourced operations

- While there has been some improvement in control procedures over outsourced information technology operations, key deficiencies still remain. Accordingly, the outsourced environment still does not meet the standards required for SysTrust certification. Until these deficiencies are rectified, the control environment for outsourced operations cannot be considered sound.

Implications and risks

Without a strong system of internal control, the University increases the risks of unreliable financial information and inadequate safeguarding of assets.

4.2.2 Fraud policy

Recommendation

Fraud policy needs to be developed

We recommend that the University of Alberta develop and implement a policy to define its actions, responsibilities, authority levels and reporting lines in case of allegations of fraud.

Background

There were six instances within the past year, where University employees or external parties allegedly misappropriated or attempted misappropriation of University assets.

Criteria

The University should have a consistent approach to recording, investigating and referring suspected fraud to appropriate authorities.

Findings

Inconsistent reactions

Each instance of alleged fraud was handled differently. The University's Internal Audit investigated one case, was provided information e-mails relating to some cases and had no knowledge of others. Also, it appears that no single person or office has complete information on fraud related issues at the University.

The Director of Internal Audit cannot ensure that control systems are appropriate if he is not advised promptly of failures of those control systems.

Implications and risks

The University needs to adopt a consistent approach of recording, investigating and referring suspected fraud and abuse to appropriate authorities. This would have the following advantages:

- Minimizing the risk of future loss, increasing the probability of recoveries, investigating the integrity of control systems and determining if other losses or vulnerabilities exist.
- Ensuring that the investigation was conducted in a manner consistent with established legal practices, such as the Charter of Rights and Freedoms, and the *Freedom of Information and Protection of Privacy Act*. Adherence to established legal practices may lessen the probability of liability pursuant to claims for wrongful dismissal.
- Discouraging individuals who may be inclined to commit fraud from doing so by having a consistent policy that details actions to be taken in the case of a suspected fraud and them knowing that action is taken in every case.

4.2.3 Basis of measurement for budget

Background

Satisfactory progress

Previously we recommended that the University of Alberta corporate level budget be presented on a GAAP basis and include all operating, financing and investing transactions (2000—No. 36 and 2002—No. 41).

Findings

The University has made satisfactory progress. In addition to preparing the statement of revenue and expense on a GAAP basis, the University has agreed to prepare a GAAP based statement of financial position for the 2004–2005 budget. We will continue to monitor the University's progress in implementing this recommendation.

4.2.4 Net assets

Background

Satisfactory progress

Previously we recommended the University of Alberta determine the level of net assets required on an ongoing basis to ensure that programs and facilities continue to be supported (2000—No. 37, 2001—page 212 and 2002—No. 42) and develop a plan to attain that level.

Findings

The University has an unrestricted net assets deficiency. This means after excluding the assets and net assets related to endowments and capital assets purchased through University funds, the University's liabilities exceed its assets.

The University has made satisfactory progress. The University has accepted this recommendation and has indicated its first priority will be to eliminate the unrestricted net assets deficiency. The University has established a target to reduce the unrestricted net assets deficiency to 0.5% of total net assets by 2005–2006. We will continue to monitor the University's progress in implementing this recommendation.

4.3 University of Calgary

4.3.1 Internal control systems

Recommendation No. 35

We again recommend that the University of Calgary improve its internal control systems (2001—No. 38 and 2002—No. 43).

Criteria

A system of internal control consists of the policies and procedures established and maintained by management to assist in achieving its objective of ensuring, as far as practical, the orderly and efficient conduct of the entity's business. It should include a system of checks and balances to ensure that financial data is reliable.

Findings

The University should improve its control systems

The government's response to our *2001–2002 Annual Report* was that improvement in controls would require replacement of systems and changes to administrative structure, policies and procedures. The target date for completion is 2006–2007. This is a considerable time in the future. Steps need to be taken to establish adequate control until these changes are accomplished. The University has not made significant progress in implementing this recommendation. While some of the control weaknesses observed in the current year are new, we have made some of the observations in the prior year. We observed the following weaknesses in the internal control systems of the University:

Access controls

Some individuals have inappropriate access to systems

- Four people in the University Information Technology Department (UCIT) have administrator access privileges that allow them to add, update, approve, un-approve and delete transactions in the production environment. Changes made by UCIT should be reviewed and approved by the responsible department.
- Of six individuals we tested who had access to the Financial Transaction Input system, two had access that is not required to perform their duties.

Authorization

Some payments were not properly authorized

- Signature records are not current. Ten of the twenty-eight invoices we sampled could not be confirmed to signature records. We found no evidence of alternate processes employed by accounts payable to confirm the identity and the appropriateness of the person approving the invoice. In addition, when the appropriate signing authority did not authorize the expenditure, we could find no evidence that the appropriate approval was obtained before the payment was processed.
- Five of the twenty credit card statements we sampled were approved for payment by the cardholder. The University's policy requires a representative independent of the credit card cardholder to approve the payment. Three credit card statements had missing supporting documentation and two were processed for payment without signatures.

Transactions were incorrectly recorded

Proper recording of transactions

- A capital lease of $1.009 million had been incorrectly accounted for as an operating lease in a prior year.
- The annual cost of hardware and software support services of $96,000 was capitalized instead of expensed.
- The unspent portion of a restricted Health and Wellness grant of $493,734 was inappropriately recorded as revenue.
- The portion of revenue and expenses for certain programs that relate to the next fiscal year were incorrectly recorded in the current year.

- Assets were identified as assets to be disposed of in the prior fiscal period; however they were not written-off until the current period.

Integrity of computer systems

- The system used to process billings for maintenance services to internal departments and external parties updates the general ledger through a batch transfer from the system. There is no check to verify that the total in the batch agrees with the amount posted to the general ledger. We found that an original billing of $13,257 was included in the work order report, but did not appear in the general ledger.

Implications and risks

Without a strong system of internal control, the University increases the risk of unreliable financial information and inadequate safeguarding of assets.

4.3.2 Application development methodology

Background

In our *Annual Report* (2002—No. 44), we recommended that the University implement a formal methodology to design, develop, implement, test and maintain software applications.

Findings

Satisfactory progress

The University is making satisfactory progress towards implementing this recommendation. We will review progress in our next *Annual Report*.

4.3.3 Capital construction projects

Background

In our *Annual Report* (2000—No. 38), we recommended that the University of Calgary improve its contract project management systems by ensuring project proposals are complete and fit with the long-term campus plan prior to approval. We further recommended that project management controls be strengthened.

Findings

Satisfactory progress

The University has made satisfactory progress in implementing this recommendation. The requirements for developing project proposals have been revised and changes are being implemented. The University has also made satisfactory progress in strengthening project management controls.

4.4 Mount Royal College—internal controls

Recommendation

We recommend that Mount Royal College increase efficiency in the preparation of internal and external reporting and increase the accuracy of the reporting.

Criteria

Management should ensure efficiency and accuracy in the preparation of financial data by:

- establishing controls and procedures
- communicating and monitoring financial policies that assist in correctly recording transactions
- reducing the manual correction work at year end
- evaluating current accounting policies and practices to ensure they are in accordance with generally accepted accounting principles

Background and findings

Processes and controls need to be improved to ensure proper recording of transactions

The College could improve processes and controls by:

- ensuring that the College's capital asset policy is consistent with Canadian generally accepted accounting principles.
- assessing the value of investments to determine whether the loss is other than temporary, in accordance with Canadian generally accepted accounting principles. This includes obtaining evidence to support the assessment.
- ensuring that accruals are recorded in the correct period. We noted 14 instances, totalling in excess of $750,000, where accruals and payables were not recorded in the correct period.
- improving controls over changes to rate tables. An error in the billing system resulted in the incorrect fee being charged to students and a loss in revenue. Changes to fee structures should be verified to ensure that the correct fee is calculated and assessed.
- restricting access to system applications to those that require access to perform their duties. We noted one Information Technology staff member has the ability to input data into the payroll system.
- balancing between the cash in the till and the till tape, restricting access to the till so that responsibility for imbalances can be determined, and tracking payment by applicant to allow for follow up on NSF payments.

Implications and risks

Without good processes and controls, the College cannot ensure its financial data is timely and accurate.

4.5 Southern Alberta Institute of Technology

4.5.1 Periodic budgets

Recommendation

We recommend that the Southern Alberta Institute of Technology perform monthly analysis of budget-to-actual or budget-to-forecast variances to monitor performance throughout the year.

Criteria

- Management should analyze variances between budget and actual amounts or between budget and forecast amounts monthly.
- Management should define the size of variances requiring explanations.
- Senior management should challenge, review and approve variance explanations.

Findings

Monitoring performance did not include comparison to expectation

The Institute's annual budget was not allocated by month or quarter based on projected or historical revenue and expense patterns. As a result, budget-to-actual comparisons were not made throughout the year. The Institute tried to compare the actual year-to-date expenses, plus committed amounts for the rest of the year, to the budget. However, the Institute identified very few variances because only some of the Institute's expenses were committed.

The variances that were identified were not challenged, reviewed and approved by senior management in the departments, only by the budget division. Without effective analysis of variances, errors in the periodic financial reports may not be detected. For example, the Institute understated its second quarter expenses by $1.25 million because an error in the accrual of utilities was not discovered and corrected.

Implications

Poor information may affect decisions

Without budget-to-actual or budget-to-forecast comparisons that are also accurate during the year, senior management and the Board will not have good information to support decisions and assess managers' stewardship.

4.5.2 Conflict-of-interest policy

Background

On page 221 of our *2000–2001 Annual Report*, we recommended that the Institute require annual disclosure of conflict of interest for those staff involved in the procurement and project management functions. We also recommended that the Institute obtain conflict-of-interest disclosures from its contractors and review its code of conduct and ethics policy for contracted project management staff.

Findings

Satisfactory progress

The Institute implemented the two recommendations. The Institute now requires annual disclosure of conflict of interest by relevant staff. The Institute's conflict-of-interest policies and process were extended to include contracted project management staff. The Institute obtained conflict-of-interest disclosures from its contractors.

4.5.3 Business case analysis

Recommendation No. 36

We again recommend that the Southern Alberta Institute of Technology improve the business case analysis for major projects (2001—No. 40).

Background

We made this recommendation in our *2000–2001 Annual Report*. The Institute accepted the recommendation.

Criteria

Major construction projects should be supported by a business case analysis.

Findings

Business cases incomplete

Progress is unsatisfactory since most of the projects reviewed did not have the main components of a good business case. The Institute had a number of elements of a business case in various documents for all of the six projects we reviewed. However, five of the projects did not have all of the main components of a good business case—strategic alignment with long-term plans, identification of alternatives, operational impact analysis, assessment of risk, cost-benefit analysis, and selected alternative approval. Also, there was no formal business case document or template used for all projects.

The business cases for three significant projects did not include a description of how the projects aligned with the Institute's long-term capital plan. These projects were not in the capital plan. The business cases did not compare the projects to alternative capital projects. Further, the Institute's business case did not assess how two other projects, one externally funded project and one joint funded project, aligned with long-term operational plans.

The Institute did not perform a risk analysis of usage rates or of obtaining financing for two projects. The Institute's analysis of the cost of two projects did not include the impact on operating costs, or the timing of cash flows.

The Institute should develop and use a template for business cases. This would help to ensure that the main components of a business case are addressed. Alternatively, the Institute should investigate using the Province's template for business cases.

Implications and risks

Lack of good information to support decisions

There is a risk that unless the Institute establishes and enforces the requirements for preparing business cases, decision makers will not have the necessary information on the cost, benefits and risks of all reasonable alternatives.

4.6 Grant MacEwan College—financial processes

Background

We previously recommended that Grant MacEwan College improve its financial processes and controls to increase efficiency and accuracy in financial reporting (2002—No. 45).

Findings

Satisfactory progress

We made the same recommendation at the end of the 2002 audit. The College advised us that they would undertake an initiative to significantly improve the College's financial processes and controls. We will assess the results of this initiative during the 2003 audit.

4.7 Other matters in auditor's report

Our auditor's report on the financial statements of the Lethbridge Community College Foundation had a reservation of opinion because we could not verify the completeness of donation revenue.

Municipal Affairs

Summary: what we found in our audits

1. **Systems**
   The Ministry is making satisfactory progress with recommendations that are not yet implemented—see page 247.

2. **Financial statements**

   2.1 We have two reservations of opinion on the financial statements of the Ministry for the year ended March 31, 2003—see page 254.

   2.2 The Ministry should not advance funds to other organizations to acquire its own assets—see page 254.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**
   Our auditor's reports for the year ended December 31, 2002 on the following entities that report to the Minister were unqualified:
   - Improvement Districts 4, 9, 12, 13 and 24
   - Kananaskis Improvement District
   - Special Areas Trust Account

Overview of the Ministry

Four core businesses and two operating divisions

The Ministry's 2002–2005 business plan describes four core businesses:
- Local Government Services
- Safety Services
- Emergency Management Alberta (EMA)
- Municipal Government Board

Ministry spent $161 million

Ministry expenses for 2002–2003, amounted to $161 million and comprise:

	(millions of dollars)
Local Government Services (including the Municipal Government Board)	112
Safety Services	23
Disaster Services	26

Ministry received $2 million

The Ministry received $2 million from external sources.

For more information on the Ministry and its programs, visit its website at www.gov.ab.ca/ma.

Scope: what we did in our audits

1. We followed up on our prior year's recommendations that the Ministry:

    1.1 improve the controls designed to ensure that municipal property tax assessments are fair and equitable.

    1.2 reassess the present and future suitability of the existing Government Emergency Operations Centre and improve procedures to promote and coordinate emergency preparedness plans developed by Alberta government departments and municipalities.

    1.3 improve its process to verify that responsibilities to issue permits under the *Safety Codes Act*, which it has delegated to other entities, are being properly discharged.

    1.4 improve business planning, performance measurement and reporting, and human resource management systems.

2. Financial statements
   We audited the financial statements of the Ministry for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements for the year ended December 31, 2002 of the following entities that report to the Minister:
   - Improvement Districts 4, 9, 12, 13 and 24
   - Kananaskis Improvement District
   - Special Areas Trust Account

Findings and recommendations

1. Systems findings

1.1 Municipal property tax assessments

Background

On page 227 of our *2000–2001 Annual Report*, we recommended that the Ministry improve the controls designed to ensure that municipal property tax assessments are fair and equitable.

Criteria

The property values used for property tax assessments should be accurate.

Findings

Satisfactory progress

The Ministry is making satisfactory progress toward eliminating deficiencies identified in our *2000–2001 Annual Report*. The Ministry:

- developed a five-year plan to deal with the backlog of field audits
- included assessments of regulated properties in annual desk audits
- improved audit documentation and review procedures
- tracked changes to equalized assessments

ASSET system being developed to assist Ministry in audits

The Ministry has also been developing the Assessment Shared Services Environment system (ASSET) to improve the:

- annual audit on each municipality's annual tax assessment submission
- detailed audits of municipality's processes to prepare the submission
- equalization process to determine the portion of the taxes that municipalities should collect and pay to the Alberta School Foundation Fund

The Ministry plans to implement ASSET in the 2003–2004 fiscal year. We will follow up on the full implementation of the recommendation and the ASSET system in 2003–2004.

1.2 Emergency preparedness

1.2.1 Suitability of existing Government Emergency Operations Centre

Background

Last year (2002—No. 46), we recommended that the Ministry re-assess the present and future suitability of the existing Government Emergency Operations Centre (GEOC).

We found that the GEOC could not physically house all personnel that would be required if a disaster occurred, the location of the GEOC was unsuitable, and security was poor.

Criteria

1. The GEOC should act as the command centre for relevant government agencies to operate from. The GEOC should also facilitate the sharing of information and coordination of resources for an emergency.

2. The GEOC should have sufficient space available to physically house all personnel that would be required if a disaster occurs.

3. Adequate security should be in place to ensure access to the facilities is limited to authorized personnel.

Findings

Recommendation implemented

The Ministry implemented our recommendation. The Ministry worked with Alberta Infrastructure to relocate the GEOC. The new facility is known as the Emergency Management Alberta Operations Centre (EMAOC).

The new EMAOC:

- includes operation centres for various response teams dealing with different types of disasters
- can physically house all of the personnel that would be required to be there if a major disaster occurs
- is located in a more suitable area
- can provide sleeping accommodations for personnel if the EMAOC were to be activated for a long period of time
- has a security system and rooms for secured conversations

1.2.2 Cross-department coordination of emergency preparedness

Background

Ministries failed to prepare emergency response plans

Last year, we recommended (2002—No. 46) that the Ministry take more active steps to promote the need for, and facilitate the efforts of, provincial government departments to develop and test comprehensive emergency response plans. Cross-department coordination of emergency preparedness was being hindered because of the failure of many Provincial government departments to prepare adequate plans, and the ineffectiveness of the Ministry systems in dealing with this problem.

Criteria

The Ministry should:

1. advise deputy ministers when departments are failing to prepare emergency plans
2. implement a program of testing departmental plans, as is currently the case with local government plans

Findings

Ministry making satisfactory progress

The Ministry is making satisfactory progress in implementing our prior year recommendation. The relocation and development of the GEOC has been the main focus of the Ministry. The Ministry did not require completion of departmental emergency plans because they were aware that the new facility and tools available in the facility would change the way that departments respond to emergencies.

Ministry developed Emergency Plan template

The Ministry:

- developed an emergency plan template that departments can use to prepare their emergency plans in accordance with the *Government Emergency Planning Regulation 62/2000*.

Training program developed

- developed a training program for departments on the use of the EMAOC and its equipment.

Ministry drafted amendments to Regulation

- drafted amendments to the *Government Emergency Planning Regulation 62/2000* to clarify the roles and requirements of departments to provide Consequence Management Officers, Crisis Management Officers, and Business Resumption Officers. This may improve the ability of Officers to focus effectively on their respective roles in the case of an emergency.

EMA will start testing plans in 2004–2005

The Ministry plans to provide the emergency plan template and the training program to departments in the fall of 2003. The Ministry also expects that departmental emergency plans will be drafted by the end of the 2003–2004 fiscal year. The Ministry plans to conduct cross-ministry exercises of departmental emergency plans in the 2004–2005 fiscal year. The plans will be amended if necessary, based on the results of the exercises.

1.2.3 Consistency in review and testing of municipal plans

Background

Last year, we recommended that the Ministry develop a set of standards that can be used to evaluate the quality of municipal emergency response plans. We also recommended that the Ministry report deficiencies within the plans to senior officials or council members of the municipality.

The Ministry:

Last year, no standards to evaluate plans

- relied on the experience and judgment of the District Officer to adopt an appropriate approach to review and test municipal emergency plans and to assess areas where plans may be deficient

Last year, no reports to senior officials or council members

- did not provide reports to senior officials or council members, after the municipalities' emergency plans were reviewed and tested, to report the findings and the recommendations of the review

Criteria

The Ministry should:

1. use formal criteria or standards to consistently review and test the effectiveness of municipal emergency plans

2. report the outcome of reviews and tests of plans to senior officials or council members of the Municipality

Findings

Ministry making satisfactory progress

The Ministry is making satisfactory progress in implementing our prior year recommendations.

Ministry developed standards

The Ministry has developed a checklist to ensure consistency in the review and testing of municipal plans. This checklist was developed in March 2003 and the Ministry will start using it in the 2003–2004 fiscal year.

Letters are sent to Director of Disaster Services of municipality

The Ministry now sends reports of the results of the review and test of the plans to the municipalities' Director of Disaster Services, who is ultimately responsible for coordinating emergency preparedness in the municipality.

We will follow up the implementation of the checklist next year.

1.3 Safety services

Background

Weaknesses in Ministry's checking procedures

On page 223 of our *2001–2002 Annual Report*, we recommended that the Ministry improve its process to verify that responsibilities to issue permits under the *Safety Codes Act*, which it has delegated to other entities, are being properly discharged. Eight observations supported this recommendation.

Criteria

1. The quality of work done by organizations issuing permits under the *Safety Codes Act* should meet acceptable standards.
2. The Ministry should know how the organizations are performing.

Findings

The Ministry is making satisfactory progress in implementing our recommendation.

Safety System Review Final Report highlighted concerns with quality of inspections

The Ministry and the Safety Codes Council (SCC) reviewed the safety system in Alberta with input from various stakeholders. They issued the *Safety System Review Final Report* in May 2003. The report highlighted concerns about quality of the inspections and suggested that the Ministry and SCC look at ways to enhance the monitoring program to focus on assessing the quality of inspections performed.

The Ministry also:

- developed better guidelines to assist departmental staff on field visits
- improved standard sample size guidelines
- improved the supervisory review of field visits to ensure checklists are properly completed
- developed processes to schedule follow-up audits and to record the results
- integrated procedures to assess risks into software used for field visits

However, the Ministry still needs to:

- include site-verification or other forms of re-performance in the field-checking procedures
- compile accidents and major complaints/claims data that will assist the field audit process
- request performance information from all accredited organizations regularly

Task Force to be set up to investigate solutions

The Ministry and SCC plan to set up a Task Force in the fall of 2003 to investigate the outstanding observations. Management indicated that they would complete the review and start an implementation process by the end of the 2003–2004 fiscal year. The Task Force should ensure that the risks of poor quality inspections are minimized.

We will follow up after the 2003–2004 fiscal year to determine whether the outstanding observations under review by the Task Force have been dealt with.

1.4 Managing for Results

Background

On page 225 of our *2001–2002 Annual Report*, we made the following recommendation to help the Ministry obtain more value from its *Managing for Results* (business planning, performance information, and human resource management) processes:

We recommended that the Ministry of Municipal Affairs:
- include all relevant entities in the business plan and expand the discussion of risks and environment factors
- effectively implement the Ministry business plan by fully integrating its operational plans with the Ministry business plan and staff performance plans
- improve the implementation of the human resource performance planning and assessment process
- review the methodology for two performance measures: financially accountable municipalities and the satisfactory administration of the *Safety Codes Act*

Criteria

The business plan, performance report, and underlying systems should help management achieve desired results and legislators make informed funding decisions. We used an extensive set of criteria that we developed through consultation with government management.

Findings

The Ministry is making satisfactory progress in implementing the prior year recommendations.

Business Plan refers to all entities and discusses risks

Business plan—the Ministry implemented our recommendation to include all relevant entities and expanded the discussion of risks and environmental factors in the business plan. The Ministry is also making satisfactory progress in implementing our recommendation to effectively implement the Ministry business plan by fully integrating its operational plans with the Ministry business plan and staff performance plans.

Satisfactory progress to effectively implement business plan

The Ministry developed a standard format and approach to operational plans that supports the implementation of the Ministry business plan strategies. A template and procedures have been developed to document how these strategies will be carried out. The initiatives and actions in the operational plan and their relationship to the goals and strategies in the Ministry's business plan are recorded and managed using an electronic tool.

Satisfactory progress to improve performance planning

Human resource management—the Ministry is making satisfactory progress in implementing our recommendation that management improve the implementation of the human resource performance planning and assessment process.

Competency model implemented in phases

The Ministry is following a phased approach to implement the new competency model the Personnel Administration Office introduced. Management has selected two competencies—communication and client focus—to help them meet business needs and respond to the results of the Corporate Employee Survey. The Ministry provided training to staff on the purpose and use of the performance plans.

New process to support payment of bonuses not fully implemented

Human resources developed a process to support the payment of achievement bonuses; on full implementation, this process will ensure that the performance plan is a key part of the process.

Performance measures—for the financially accountable municipalities' measure, the Ministry is working on more timely receipt of municipal annual financial reports by developing the *milenet* application system. Management undertook to review the matter in 2004, after implementation of the *milenet* application.

For the satisfactory administration of the *Safety Codes Act* measure, the Ministry has established a task force to investigate the feasibility of adjusting the weighting of individual monitoring checklist items and increasing the 70% benchmark for satisfactory performance. Management indicated that they would complete the review and start an implementation process by the end of the 2003–2004 fiscal year.

We will follow up on the status of these recommendations.

2. Financial statement audits

2.1 Reservations of opinion

We audited the financial statements of the Ministry for the year ended March 31, 2003. The financial statements are prepared in accordance with the corporate government accounting policies established by the Department of Finance. We had the following two reservations of opinion on the financial statements:

Not all capital assets recorded

1. The Ministry understates capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Operations of entities not included in Ministry financial statements

2. Ministry financial statements contain only the results of operations and net assets of the Ministry of Municipal Affairs. The financial statements of the delegated administrative organizations (DAOs) and the Safety Codes Council should be included in these financial statements. These organizations require the Minister's approval for revenue-raising, expenditure and resource allocation policies related to their functions.

   Safety services administration is the responsibility of the government. Consolidation of financial statements of the DAOs and the Safety Codes Council with the financial statements of the Ministry of Municipal Affairs would provide a complete overview of the full nature and extent of the financial affairs and resources for which the Minister is accountable.

   If the Safety Codes Council and the DAOs were included in the Ministry's statements, the following items in the financial statements would have increased by the amounts shown:

Revenues	Expenses	Assets	Liabilities	Net Assets
$40 million	$37 million	$31 million	$19 million	$12 million

2.2 Acquisition and accounting for capital assets

Recommendation No. 37

We recommend that the Ministry of Municipal Affairs not record the acquisition of its assets as grant expense. We further recommend that the Ministry not disburse funds for the development of its systems before any development occurs.

Background

ASSET initiative started in 2001

The Ministry started an initiative in 2001 to develop the Assessment Shared Services Environment system (ASSET) to assist the Ministry in performing its audit responsibilities—see page 247.

$3.7325 million paid to each of AUMA & AAMDC for ASSET

A supplementary estimate for $10 million was passed on December 4, 2000 to provide funds for the ASSET system and a building permit data sharing system. In March 2001, the Ministry paid $3.7325 million to each of the Alberta Urban Municipal Association (AUMA) and Alberta Association for Municipal Districts and Counties (AAMDC). This money was to manage the development of the ASSET system that the Ministry will use to perform the audit functions and to make changes to municipalities' systems so they comply with ASSET.

$1.4 million paid to SCC for building permit system; balance used to acquire hardware to operate the systems

In addition, the Ministry paid a $1.4 million grant to the Safety Codes Council (SCC) to develop the building permit data sharing system that the SCC and municipalities will use to issue building permits. The Ministry used the balance of the funds to acquire the hardware required to operate the systems.

Criteria

1. The Ministry should provide funds for the development of its systems only as development occurs.
2. Acquisition of assets should be properly recorded in the Ministry's financial statements.

Findings

Ministry accounted for total payment to AUMA & AAMDC as grant

The Ministry accounted for the total payment of $7.465 million to AUMA and AAMDC as a grant in 2001. Approximately $2.4 million of the $7.465 million was provided to develop the Ministry's portion of the ASSET system. The Associations contracted with the Ministry's information technology service provider to develop the entire ASSET system.

$2.4 million should have been accounted for as asset of Ministry

The Ministry should not have accounted for the $2.4 million as a grant. A grant is a transfer of money for which the person making the payment (in this case, the Ministry) does not expect to get any goods or services in return. Since the Ministry received goods—the ASSET system—in return for the funding, it was not appropriate to record the purchase of the system as a grant.

Ministry paid full amount before any work was done

The Ministry paid for its portion of the system to the associations before any development had taken place. This increased the risk of loss of funds because the Ministry relinquished control of the funds before any work was carried out. Instead of using third parties, it would have been preferable for the Ministry to contract directly with the service provider. Then, the Ministry could have advanced payments directly to the service provider after confirming the services were provided. Also, the payments would then have been recorded as an asset when the payments were advanced to the service provider.

Implications and risks

By providing the funding indirectly to the service provider as a grant to the Associations, the payment for the Ministry's portion of the system was expensed and the acquisition of an asset was not recorded. Also, the Ministry paid the full cost of the system to the associations before any development had taken place. This increased the risk of loss of funds because the Ministry relinquished control of the funds before any work was carried out.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

The audits of the financial statements for the year ended December 31, 2002 of the following entities that report to the Minister resulted in unqualified opinions:

1. Improvement Districts, 4, 9, 12, 13 and 24
2. Kananaskis Improvement District
3. Special Areas Trust Account

Revenue

Summary: what we found in our audits

1. **Systems**

   1.1 The Department's Tax and Revenue Administration needs to decide how much audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation—see page 260.

   1.2 The Department needs to define the objectives of the *Tax Exempt Fuel Users* program, report on the results, and examine alternatives to simplify the administration of the program—see page 262.

2. **Financial statements**
   We have one reservation of opinion on the financial statements of both the Department and Ministry—see page 212.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**

   4.1 Transfers from the Alberta Heritage Science and Engineering Research Endowment Fund may not comply with legislation—see page 263.

   4.2 We issued auditor's opinions without reservation for the financial statements of all the entities listed in section 4.2 of Scope.

   4.3 We provided interim review reports to the Investment Operations Committee and the Minister of Revenue on the Alberta Heritage Savings Trust Fund's quarterly financial statements—see page 263.

Overview of the Ministry

Four core businesses

The Ministry's 2002–2005 business plan identifies four core businesses:
- manage tax and revenue programs fairly and efficiently
- manage and invest financial assets prudently
- manage risk associated with the loss of public assets
- regulate Alberta's capital market

The Ministry consists of the:
- Department of Revenue
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Alberta Securities Commission

Ministry manages $34 billion

The Ministry manages approximately $34 billion of investments. This includes the assets of the Alberta Heritage Savings Trust Fund, other Provincial endowment funds, government-sponsored public sector pension plans and other government-related clients.

Ministry received $7.3 billion

The Ministry collected $7.3 billion in net revenue in 2002–2003, from the following sources:

	(in millions)
Income taxes	$ 6,853
Other taxes	1,430
Fees, permits and licences	15
Other	22
	8,320
Loss on investments	(1,034)
	$ 7,286

Ministry spent $207 million

The Ministry spent $207 million in 2002–2003. For more detail on the Ministry, visit its website at www.revenue.gov.ab.ca.

Scope: what we did in our audits

1. We completed a systems audit of the Audit Branch of the Department's Tax and Revenue Administration and reviewed the objectives of *the Tax Exempt Fuel Users* program.

2. We audited the financial statements of the Ministry and Department for the year ended March 31, 2003.

3. We completed specified auditing procedures on the performance measures in the Ministry's 2002–2003 annual report.

4. Other entities that report to the Minister:

   4.1 We followed up on our previous recommendation on legislative compliance of the financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund—see page 263.

   4.2 We audited the financial statements of the following entities for the year ended March 31, 2003:
   - Alberta Heritage Savings Trust Fund
   - Alberta Heritage Foundation for Medical Research Endowment Fund
   - Alberta Heritage Scholarship Fund
   - Alberta Heritage Science and Engineering Research Endowment Fund
   - Alberta Risk Management Fund
   - Alberta Securities Commission

   We also audited the financial statements of Orion Properties Ltd., 735832 Alberta Ltd., and ARCA Investments Inc., for the year ended December 31, 2002. These companies operate as intermediaries holding certain investments on behalf of the beneficial owners, predominantly pension plans.

   4.3 We also completed reviews of the Alberta Heritage Savings Trust Fund's quarterly financial statements.

Findings and recommendations

1. Systems

1.1 Amount of audit work

Recommendation No. 38

We recommend that Tax and Revenue Administration (TRA) of the Ministry of Revenue decide how much more audit work it should do to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation.

Background

The Tax and Revenue Administration's Audit Branch consists of the Corporate Tax Audit Team and the Commodity Tax Audit Team. The Corporate Tax Audit Team is responsible for audits under the *Alberta Corporate Tax Act*. The Commodity Tax Audit Team is responsible for audits and compliance activities under the *Alberta Tobacco Tax Act*, the *Alberta Fuel Tax Act* and the *Alberta Hotel Room Tax Act*.

The Audit Branch:

- performs compliance and audit services to provide assurance of compliance with corporate and commodity tax legislation
- enforces the provisions of commodity tax legislation, in cooperation with law enforcement agencies
- recommends reassessments, including penalties when appropriate
- participates with other government departments, stakeholders and other jurisdictions in projects to improve tax program design and levels of compliance
- resolves disputes and issues with other jurisdictions on the allocation of corporate taxable income among jurisdictions
- cooperates with other Tax and Revenue Administration (TRA) branches and stakeholders to educate Albertans in their responsibilities to TRA's programs, thereby promoting improved self-compliance

Criteria

TRA's Audit Branch should do enough audit work to:

- identify errors and fraud to minimize the risk of revenue loss from taxpayers and claimants not complying with tax legislation
- encourage voluntary compliance with tax legislation

Findings

TRA concluded more audit work should be done but not clear how much more

TRA has not decided how much audit work it should do to minimize the risk of revenue loss due to taxpayers and claimants not complying with tax legislation and to encourage voluntary compliance. The Audit Branch recognizes that it has not done enough audit work in most programs, mainly due to inadequate audit resources. As a result, available resources, not the level of risk, have dictated the level of audit activity. Since 1994, the number of auditors has varied significantly from 48 auditors in 1995, to 7 auditors in 1999, to 41 in July 2003.

We concluded more audit work should be done

Our observations, which follow, support management's conclusion that the Branch should do more audit work. We cannot say how much more audit work the Branch should do, as this is management's responsibility.

Significant recoveries from ARTC audits

- Audits of the *Alberta Royalty Tax Credit* (ARTC) program in 2003 resulted in $15 million in net recoveries to the Province, although the Branch audited only 2–3% of the claimants (the Branch does not keep records of the amount of credits audited as a percentage of the total amount of credits claimed). The extent of recoveries indicates a high degree of non-compliance with legislation, based on the percentage of claimants audited.

TRA should perform tax allocation audits

- Corporations allocate taxable income to provinces in which they have a permanent establishment, in accordance with an allocation formula. Unlike other jurisdictions, Alberta does not perform corporate income tax allocation audits. The Corporate Tax Audit Team does follow up on corporate income tax allocation matters that other jurisdictions may refer to them. Over the past four years, follow-ups on these referrals have resulted in an average annual net recovery of $4.5 million. The recoveries indicate that TRA should perform tax allocation audits and not just rely on referrals from other jurisdictions.

Number of TEFU audits is low

- TRA concluded that the fuel tax rebate component of the Tax Exempt Fuel Users (TEFU) program represents a significant risk for invalid or inaccurate claims. However, TRA audited less than 1% of claimants over the past two years. The audits resulted in net recoveries of $1.9 million. The percentage of claimants audited is low compared to the risk and to the recoveries from audits.

Number of AFFDA audits is low

- TRA has assessed the Alberta Farm Fuel Distribution Allowance (AFFDA) program to be high risk. In 2003, 20 audits resulted in net recoveries of $49,000. The number of audits represents 0.03% of the 60,000 AFFDA registrants. Again, the amount of audit work done is low compared to the risk and to the recoveries from the audits.

Implications and risks

- Too few audits increase the risk of non-compliance with tax legislation and loss of revenue to the Province. The loss includes payments for invalid or inaccurate claims.

1.2 Tax Exempt Fuel Users program

Recommendation

We recommend that the Department of Revenue define the objectives of the *Tax Exempt Fuel Users* program and evaluate the results.

Background

Program has expanded since its introduction

The *Tax Exempt Fuel Users* (TEFU) program was introduced in 1987 to remove the fuel tax on inputs to primary resource industries such as oil and gas, forestry and mining. Since then, the program has expanded to include a wide range of industries. The program provides rebates of fuel tax to commercial operations, municipalities and educational institutions for fuel used in vehicles operated off-road.

The Department processed about 3,500 TEFU claims in 2002–2003.

Criteria

Management should:

- clearly define and communicate the objectives of the TEFU program
- evaluate the program results

Findings

Unable to find program objectives

We were unable to determine the objectives of the program, particularly considering the expansion of the program to include non-primary industries. We also found that the Department does not evaluate the results of the program in relation to the program's objectives, which is not surprising given the lack of clarity about its objectives.

Implications and risks

Management cannot assess the effectiveness of the TEFU program if its objectives are not clear. Also, the Province may forego revenue without achieving the program's objectives.

2. Financial statement audits

Our auditor's reports on the Department and Ministry financial statements have one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's key performance measures.

4. Other entities that report to the Minister

4.1 Alberta Heritage Science and Engineering Research Endowment Fund

Section 8(2) of the *Alberta Heritage Foundation for Science and Engineering Research Act* states that:

> *The Provincial Treasurer shall not pay money out of the Endowment Fund if in the opinion of the Trustees of the Foundation, on consultation with the Provincial Treasurer, the payment would impair the real value of the Endowment Fund over the long term.*

Unable to assess compliance with the law

As the terms "real value" and "over the long term" are not defined in the legislation, our auditor's opinion on the Foundation states that we were unable to assess whether transfers from the Endowment Fund were made in compliance with section 8(2) of the Act.

See page 207 in the Innovation and Science chapter of this report for further information about the status of this issue.

4.2 Unqualified auditor's reports

We issued unqualified auditor's reports on the financial statements of all the entities listed in section 4.2 of Scope.

4.3 The Alberta Heritage Savings Trust Fund

As requested by the Ministry, we provided interim review reports on the Alberta Heritage Savings Trust Fund's quarterly financial statements to the Investment Operations Committee and the Minister of Revenue. The reports say that we are not aware of any material changes that are needed for these financial statements to meet GAAP.

Seniors

Summary: what we found in our audits

Monitoring systems need improvement

1. **Systems**
   The Ministry of Seniors should improve its system for monitoring the performance of management organizations that deliver social housing programs for the Ministry—see page 267.

One reservation of opinion

2. **Financial statements**
   We have one reservation of opinion on the financial statements of the Ministry. The Ministry should consolidate in its financial statements the assets, liabilities, revenues and expenses of management bodies—see page 269.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other audits—cost-sharing claims**
   We issued unqualified auditor's opinions on the cost-sharing claims under the *National Housing Act (Canada)*.

Overview of the Ministry

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:

- provide financial support and information services to seniors
- support provision and management of seniors, family and special purpose housing
- provide planning and policy development for seniors and housing

The Ministry consists of the Department and the Alberta Social Housing Corporation.

Ministry spent $366 million

In 2002–2003, the Ministry spent $366 million, primarily as follows:

	(millions of dollars)
Financial support and information services to seniors	188
Provision and management of housing programs	107
Debt servicing costs	45
Grants in kind	22

Ministry received $93 million

The Ministry received $93 million in 2002–2003, $73 million of which came from transfers from the Government of Canada.

For more detail on the Ministry, visit its website at www.seniors.gov.ab.ca.

Scope: what we did in our audits

1. We examined the Ministry's system for monitoring the performance of management organizations that deliver social housing programs on behalf of the Ministry. We also followed up on a previous recommendation that the Ministry improve its system to determine housing assistance needs.
2. We audited the financial statements of the Ministry, Department, and Alberta Social Housing Corporation for the year ended March 31, 2003. We report on the Corporation with the Department and the Ministry since they are managed in a common financial reporting system.
3. We completed specified auditing procedures on the Ministry's performance measures.
4. We also audited the 2002–2003 cost-sharing claims under the *National Housing Act (Canada)*.

Findings and recommendations

1. Systems findings

1.1 Accountability of management organizations

Recommendation No. 39

We recommend that the Ministry of Seniors improve its system for monitoring the performance of management organizations that deliver social housing programs for the Ministry.

Background

Social housing programs delivered by 150 management organizations

The Ministry provides most of its social housing programs through contracts with 150 management organizations to manage provincially-owned properties.

The Ministry monitors the performance of the management organizations and their compliance with the *Alberta Housing Act*, other legislation, and agreements by performing operational reviews and reviewing business plans and financial information the management organizations submit. The operational review comprises an on-site inspection of facilities and a review of financial, administrative and governance practices of a management organization.

Criteria

The Ministry should:

- give guidance to management organizations and ensure management organizations' business plans reflect Ministry direction.
- have a comprehensive risk assessment model for ranking management organizations to identify the most high-risk organizations for operational reviews. Operational reviews should identify and rectify non-compliance problems.
- monitor financial information, such as budgets and audited financial statements, from management organizations to ensure that significant variances between budget and actual expenses are adequately explained.

Findings

Monitoring system should be improved

We found that :

- the Ministry did not receive business plans for 4 management organizations, and another 4 of the business plans were not current—out of 11 management organizations we tested. As a result, the Ministry does not have current information to monitor management organizations' plans or to incorporate into the Ministry's planning process.

- the management of the operational reviews had the following deficiencies:
  - The current risk assessment model for selecting management organizations does not include risk factors such as the risk of fraud and the inherent risk associated with newly formed management organizations. Also, Ministry staff did not always document the rationale for certain risk assessments.
  - The Ministry did not include 9 of the 150 management organizations in the risk assessment.
  - The Ministry did not conduct operational reviews in accordance with the results of its risk assessment and its established plan. In the past three years, the Ministry conducted 84 operational reviews instead of 141 as planned. In addition, for 4 of the 12 most high-risk management organizations identified by management during the year, the Ministry did not conduct operational reviews.
  - The Ministry does not have a tracking system to ensure that all problems identified in the operational reviews are followed-up promptly. In two of the six cases where the Ministry received no response from the management organizations, the Ministry took no follow-up action.

- the Ministry reviews the financial statements of the management organizations. However, of the three management organizations we tested, the Ministry did not seek and document explanations for significant variances where expenses were below budget. Significant under-spending could signal budgeting problems or delayed maintenance of properties.

Implications and risks

There is a risk that management organizations are not complying with legislation. The Ministry may not identify poor service delivery or poorly maintained facilities. In cases of non-compliance, the Ministry does not have a system to make sure the problems are resolved promptly.

1.2 Housing assistance

Background

In our *1999–2000 Annual Report*, we recommended that the Ministry improve its system to determine housing assistance needs.

Findings

Recommendation implemented

The Ministry has implemented our recommendation.

During the past three years, the Ministry has:

- established common standards and methodology for assessing demand to help the Ministry compare housing needs across Alberta communities and rank communities according to need.
- developed statistical tools to track and trend economic and other demographic impacts at the local community level. The Ministry uses the statistics to prepare community profiles for Alberta's largest urban centres.
- developed a number of tools to assess existing housing needs and predict future housing needs in municipalities, including models that rank communities by need and that project future long-term care and supportive housing requirements for seniors.

2. Financial statement audits

Adverse opinion on Ministry financial statements

Our auditor's report on the financial statements of the Ministry contains an adverse opinion because the Ministry's failure to record the assets, liabilities, revenues and expenses of management bodies in its financial statements contravenes Canadian generally accepted accounting principles. The Ministry's housing programs are delivered by 141 management bodies. As a result, the Ministry's consolidated financial statements are incomplete. For the year ended March 31, 2003, revenues are understated by $109 million, expenses by $101 million and assets by $16 million.

The Ministry must provide complete and accurate information about its operations so that the Legislative Assembly and the public know the extent of revenues generated by Ministry assets, the expenses incurred for Ministry operations, and the surpluses (net assets) that are available for future use.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other audits—cost-sharing claims

We issued unqualified auditor's opinions on the 2002–2003 cost-sharing claims under the *National Housing Act (Canada)*. We did these audits because the cost-sharing agreements require the claims to audited.

Solicitor General

Summary: what we found in our audits

1. **Systems**
   The Department needs to issue its policing standards manual and set a reasonable timetable for auditing police services to ensure they are meeting minimum policing standards—see page 272.

2. **Financial statements**
   We have two reservations of opinion on the financial statements of the Ministry. We also have one reservation of opinion on the financial statements of the Department—see page 274.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**
   We have one reservation of opinion on the financial statements of the Victims of Crime Fund—see page 274.

Overview of the Ministry

Three core businesses

The Ministry's 2002–2005 business plan describes three core businesses:

- Promote safe communities in Alberta
- Ensure victims are treated with dignity and that eligible victims receive prompt financial benefits
- Provide effective and efficient security and supervision of offenders

Ministry spent $268 million

The Ministry comprises the Department and the Victims of Crime Fund. The total operating expenses for the Ministry were $268 million in 2002–2003 and comprise primarily:

	(millions of dollars)
Public security	120
Correctional services	131
Victims of crime	10

Ministry received $39 million

Total revenue for the Ministry was $39 million in 2002–2003. The Ministry's main revenue sources are:

	(millions of dollars)
Transfers from the federal government primarily for cost-sharing agreements	24
Fine surcharges	14

Transfers of $19 million from the federal government are for the *Young Offenders Program*.

For more detail on the Ministry, visit its website at www.gov.ab.ca/just/.

Scope: what we did in our audits

Four parts to our audit

1. We followed up on our *1997-1998 Annual Report* recommendation (1998—No. 34) to measure the adequacy and effectiveness of policing services.
2. We audited the financial statements of the Ministry and the Department for the year ended March 31, 2003.
3. We completed specified auditing procedures on the Ministry's performance measures.
4. We audited the financial statements of the Victims of Crime Fund for the year ended March 31, 2003.

Findings and recommendations

1. Systems findings—Contracting of police services

Recommendation No. 40

We again recommend that the Department of the Solicitor General implement the plan for provincial policing standards (1998—No. 34).

Background

In our *1998–1999 Annual Report* we reported the Ministry had taken initial steps towards defining adequate and effective policing levels, which would help establish criteria for evaluation of police services and establish minimum levels of policing. This was in response to our *1997–1998 Annual Report* (recommendation—No. 34).

Final draft of Policing Standards not issued

Last year, we reported the Ministry had drafted a policing standards manual but had decided not to issue the manual because it wanted to review the report of the MLA Policing Review Committee (the committee), issued on July 10, 2002, to assess its impact on policing standards.

Criteria

The Ministry should have a reasonable timetable to implement the plan for provincial policing standards, which includes issuing policing standards and auditing police services to ensure they are meeting these minimum policing standards.

Findings

Progress not satisfactory—Ministry awaiting government response

Progress is not satisfactory on this recommendation. The manual has not yet been issued. The delay in issuing the manual is a result of the Ministry decision to wait for the government response to the committee's recommendations because the response to some recommendations in the report may impact the manual. While the MLA report was released publicly in July 2002, the MLA committee subsequently conducted further consultations on its recommendations. These further consultations resulted in a supplementary report being issued by the committee in late 2002.

The government is currently considering its response to the initial and supplementary MLA reports; however, the response date is uncertain. The Ministry intends to issue the manual once the government response to the recommendations in the MLA report is known.

The Ministry also needs to obtain funding to proceed with the audits of police services. There is no date as to when audits of policing standards will commence.

Implications and risks

Until the plan is implemented, the Ministry does not know whether police services meet the province's minimum policing standards. Public safety could be at risk.

2. Financial statement audits

Two reservations of opinion

Our auditor's reports on the Department and Ministry financial statements have a reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Our auditor's report on the financial statements of the Ministry has another reservation of opinion because the Victims of Crimes Fund does not record known recurring payments handled by the Crimes Compensation Board.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

Reservation of opinion: liability not recorded

Our auditor's report on the financial statements of the Victims of Crime Fund contains a reservation of opinion. A liability was not recorded for known recurring payments handled by the Crimes Compensation Board.

Sustainable Resource Development

Summary: what we found in our audits

1. **Systems**
   The Department of Sustainable Resource Development should follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long-term lease projects—see page 277.

2. **Financial statements**
   We have one reservation of opinion and an information paragraph on the Ministry's financial statements—see page 279.

3. **Specified auditing procedures**
   We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. **Other entities that report to the Minister**
   We have one reservation of opinion on the financial statements of the Environmental Protection and Enhancement Fund—see page 280. There were no reservations of opinion on the financial statements of the Natural Resources Conservation Board.

Overview of the Ministry

Five core businesses

The Ministry's 2002–2005 business plan describes five core businesses:

- Forest protection
- Forest land and resource management
- Fish and wildlife management
- Rangeland management
- Land use disposition management

The Ministry and its components

The Ministry of Sustainable Resource Development consists of the Department of Sustainable Resource Development, the Natural Resources Conservation Board, the Surface Rights Board, the Land Compensation Board and the Environmental Protection and Enhancement Fund. The Ministry has also designated administration for certain legislative responsibilities to three delegated administrative organizations: the Alberta Conservation Association, the Forest Resource Improvement Association of Alberta, and the Alberta Professional Outfitters Society.

Ministry spent $419 million

In 2002–2003, the Ministry spent $419 million. The following programs are the largest costs of the Ministry:

	(millions of dollars)
Forest protection	297
Fish and wildlife management	36
Land use disposition management	29
Forest land and resource management	24
Ministry support services	12
Range land management	10

Ministry received $176 million

The Ministry received $176 million in 2002–2003. These are the largest sources of revenue for the Ministry:

	(millions of dollars)
Timber royalties and fees	60
Insurance proceeds	50
Land and grazing	45

For further detail about the Ministry, visit its website at www.gov.ab.ca/srd.

Scope: what we did in our audits

1. During our financial statement audit, we reviewed the processes that led to contracting for a province-wide radio system to support the Department's forest fire fighting.

2. We audited the financial statements of the Ministry and Department of Sustainable Resource Development for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

4. We audited the financial statements of the Environmental Protection and Enhancement Fund and the Natural Resources Conservation Board for the year ended March 31, 2003.

Findings and recommendations

1. Contracting for a province-wide radio system

Recommendation

We recommend that the Department of Sustainable Resource Development follow the government's best practice guidelines for contracted services and grants when undertaking major capital or long-term lease projects.

Background

Radio system needed in forest fire fighting

The Forest Protection Division of the Department uses a province-wide radio system in its forest fire fighting business. The Division needs the radio-based system to link its lookout towers to central bases and to communicate simultaneously with aircraft and ground crews involved in fire fighting. For many years, the Division relied on the Multi-Departmental Mobile Radio System (MDMRS), a system owned and operated by a private company.

Department decides to acquire its own radio system

In September 1997, the owner-operator of MDMRS informed the government of Alberta that they would discontinue MDMRS. However, the government-wide initiative to replace MDMRS progressed slowly, so in May 2000, the Department decided to seek its own solution to its radio needs. The Department was concerned that its Division would be left without a critical service, resulting in public and employee safety issues on the firelines.

Criteria

SFO Council has issued contracting guidelines

Contracting should ensure that the government acquires cost-effective services. The Senior Financial Officers' Council has issued best practice guidelines for contracted services. Departments should follow these guidelines when deciding on major projects. The guidelines describe six stages for contract management:

- Decision to contract
- Contract selection process
- Review/approval process
- Contract administration
- Contract completion
- Continuous improvement

Findings

Financial risks not adequately considered

The Forest Protection Division led the Department's project to replace MDMRS. Divisional staff prepared numerous analyses and documents to support its efforts. Most focused on the technological challenges for a province-wide radio system. Other risk areas for the project were not rigorously analyzed. For example, the Finance Division at the Department was not consulted, so the financial risks for the project were not adequately considered.

Department did not prepare business case analysis

The "decision to contract" stage in the best practice guidelines outlines requirements for risk assessment, cost-benefit analysis, scope assessment, and other components of a business case analysis. It is the responsibility of each department to prepare the business case before moving to a request for proposal (RFP). The Department did not prepare a comprehensive business case analysis for this project. The Division's rationale for not preparing a business case was the mandatory need for the radio system in light of the impending removal of MDMRS.

First RFP for capital project unsuccessful

The Department went through two RFPs for its MDMRS replacement project. The first RFP in December 2000 called for interested parties to bid on a capital project. The Department had found $4.7 million in its budget for this project and hoped for bids in that neighbourhood. However, the lowest bid (at $21 million) came in significantly higher than the available budget, so the Department cancelled the first RFP.

Second RFP changed project's risk profile

The second RFP in December 2001 was structured as a 10-year lease. As capital budgets were tight, the Department felt a lease would fit their budget constraints. As well, the government was advocating public-private partnerships as an option for service delivery. However, a lease arrangement changes the risk profile for this project. For a typical capital project, the government finances construction as it progresses. For a lease project, the contractor assumes the burden to finance the project until it is operational and generating revenue. The Department's review of the four responses to the second RFP did not analyze the financial stability of the bidders.

Lease approach costs more

In August 2002, a master lease agreement (MLA) was signed with the successful bidder. The total lease payments totalled $41 million[1] over 10 years.

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[1] The dollar figures quoted for the new radio system in this section have not been discounted for time value.

Financial issues lead to renegotiated contract

The contractor experienced financial difficulties from the start. The contract called for a $1 million performance bond. The contractor was unable to provide the bond and, after negotiation, the requirement was waived. By February 2003, the contractor was experiencing cash flow difficulties and construction of the radio system had stopped. In May 2003, the parties terminated the original MLA and replaced it with a purchase contract and a 10-year maintenance and operating lease. The capital cost for the radio system will be $15 million. The system should be completed by November 2003 and will be owned by the Department. The ten-year lease is valued at an additional $15 million. By renegotiating the MLA, the Department stands to save approximately $11 million.

Implications and risks

Department's contracting processes can be improved

The Department manages contracts totalling millions of dollars each year. Following the government's best practices will help the Department acquire cost-effective services with less risk. For example, in the "decision to contract" stage, a business case should identify risks, clarify estimated costs, and analyze lease vs. buy options. In the "review/approval process", the Department should consider the financial stability of its bidders. In the "continuous improvement" stage, the Department should consider how to improve its contracting practices.

2. Financial statement audits

Capital assets understated

Our auditor's reports on the Ministry and the Department financial statements have one reservation of opinion because they understate capital assets. Since this problem applies to 17 ministries, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Information paragraph for Swan Hills provisions

In addition to the reservation of opinion, our auditor's report for the Ministry contained an information paragraph relating to the Swan Hills waste treatment plant. We reported that the provision for cell monitoring and remediation and the provision for future removal and site restoration recognized in those financial statements are also disclosed in the financial statements of the Ministry of Environment. The two provisions on the consolidated statement of financial position, described in Notes 6 and 7 of the Ministry financial statements, and the environment statutory programs recorded on the consolidated statement of operations relate to monitoring and restoration activities at the Swan Hills waste treatment plant. Due to government restructuring in March 2001, the responsibility for these provisions and expenses is shared. As a result, the expenses related to these provisions are recognized in both the Ministries of Environment and Sustainable Resource Development. In our opinion, it is uncertain in which ministry these provisions and expenses should be recognized.

3. Specified auditing procedures

We found no exceptions when we completed specified auditing procedures on the Ministry's performance measures.

4. Other entities that report to the Minister

Reservation of opinion: capital assets misstated

Our auditor's report on the 2002–2003 financial statements of the Environmental Protection and Enhancement Fund contains one reservation of opinion on capital assets. Since the Fund does not separately identify expenses that are capital in nature, the amount of the misstatement cannot reasonably be determined. However, we believe it to be material and it results in a reservation in our opinion.

The 2002–2003 financial statements of the Natural Resources Conservation Board received an unqualified auditor's opinion.

Transportation

Summary: what we found in our audits

1. **Systems**
   The Ministry needs to strengthen monitoring and audit processes for its driver examiner program—see page 282.

2. **Financial statements**
   We have one reservation of opinion on the Ministry's financial statements—see page 287.

3. **Specified auditing procedures**
   We found one exception when we completed specified auditing procedures on the Ministry's performance measures—see page 287.

Overview of the Ministry

Four core businesses

The Ministry's 2002–2005 business plan describes four core businesses:

- improve road, driver and vehicle safety
- improve provincial highway infrastructure
- support municipalities in the provision of their transportation and water/wastewater needs
- represent Alberta's interest in provincial, national, and international policy impacting transportation

Ministry spent $673 million

In 2002–2003, the Ministry spent $673 million, mainly on the following programs:

	(millions of dollars)
Highway systems operating costs	476
Municipal infrastructure grants	127
Transportation safety services	26

Ministry received $18 million

The Ministry's revenue from sources external to the government was $18 million in 2002–2003.

For more detail on the Ministry, visit its website at www.trans.gov.ab.ca.

Scope: what we did in our audits

Three parts to our audit

1. We followed up our previous recommendations on contract management systems. We also reviewed the Ministry's systems for monitoring and auditing driver examiners.

2. We audited the Ministry's financial statements for the year ended March 31, 2003.

3. We completed specified auditing procedures on the Ministry's performance measures.

Findings and recommendations

1. Systems findings

1.1 Driver examiner program

1.1.1 Monitoring and auditing

Recommendation No. 41

We recommend that the Ministry of Transportation strengthen its monitoring of and audit processes for driver examiners by:

- **preparing annual plans for monitoring and auditing examiners**
- **promptly monitoring and auditing driver examiners, and reporting the results to senior management**
- **training driver program administrators to identify the risk factors of unethical behaviour and to investigate problem examiners**
- **making the license renewal process as rigorous as the application process**

Background

The Ministry outsourced the driver examination responsibility several years ago. The driver examiner program trains and licenses driver examiners, audits the testing of applicants, and initiates appropriate measures to maintain the standards and integrity of the driver examination process. The Ministry also monitors and audits the performance of driver examiners, reviews complaints and initiates appropriate disciplinary action when necessary. The objective of this program is to ensure only qualified drivers receive operator licenses.

Criteria

- The Ministry should have an approved plan for monitoring and auditing examiners each year.
- The Ministry's audit plan should be risk based (fraud, complaints, driver examiner experience, etc.) and its sampling methodology should be based on sound statistical principles.
- Appropriate reports on monitoring and audit activities should be prepared for senior management and reports should contain sufficient information to assess the Ministry's performance. Performance reports should be promptly prepared and reviewed.
- Monitoring and audit results should be properly followed up and appropriate action taken.
- Ministry's information systems should record examiners' activities in sufficient detail for appropriate monitoring of examiners.
- The Ministry should train staff to identify risk factors of unethical behaviour and apply investigative techniques. Reports should be reviewed promptly and appropriate actions should be taken.

Findings

Monitoring and auditing backlog

The Ministry policy requires driver program administrators to monitor and audit experienced examiners annually. New and problem examiners are to be monitored more frequently. However, driver program administrators have not carried out monitoring and auditing activities according to Ministry policy. As of June 23, 2003, the monitoring and auditing of 41 of the 146 active examiners were overdue. Of these, the Ministry had not monitored or audited 26 examiners since December 31, 2001 and one examiner since September 2000. Management informed us they are aware of the backlog in monitoring and auditing examiners and will be taking action to reduce the backlog.

We also found the following instances of non-compliance with the Ministry's policy and deficiencies in the Ministry's systems:

Problem examiner not monitored for 8 months

1. In one case, a driver program administrator did not interview road test applicants. Also, the administrator noted the examiner's skills were significantly weak in three of the seven evaluation areas. The administrator concluded the Ministry should monitor the examiner every three months. However, the Ministry did not monitor the examiner for eight months.

Another problem examiner had consistent unsatisfactory results

2. A driver examiner consistently had unsatisfactory results since 1996, but the Ministry did not suspend him until 2002. Unsatisfactory results included not promptly updating statistics on the ministry information system, using other examiners' permits, and submitting incomplete

forms. As well, two clients registered complaints against the examiner.

Pass/fail statistics not reviewed

3. The Ministry maintains statistics on pass/fail ratio experience. These statistics are useful in highlighting problem examiners. One of three administrators we interviewed did not review these statistics.

Annual monitoring and auditing plan not prepared

4. The Ministry does not prepare a formal annual plan for monitoring and auditing examiners. Also, the program is not risk-based and the driver program administrators do not use the pass/fail statistics to assess the risks. Also, senior management do not receive summary reports on the results of monitoring and auditing activities.

Ongoing background checks not done

5. The Ministry conducts a criminal record check on all new applicants for examiner licences. However, it does not do so on examiners applying for licence renewals. Management informed us that the Ministry is currently considering implementing a system for regular criminal record checks. However, it has yet to decide on the exact form of ongoing background checks.

Driver program administrators need training

6. The Ministry has recognized the need for training driver program administrators and plans to apply additional resources in this area. It is developing an action plan. We suggest the action plan include the training of administrators in the art of identifying risk factors of unethical behaviour and investigative techniques. The Ministry has provided some training on investigative techniques to the driver program administrators. However, this training did not cover how to identify risk factors.

Implications and risks

There is a risk that the Ministry will not identify and investigate examiners who are not conducting examinations in accordance with legislation and policy. This could result in unqualified drivers obtaining driver licenses, risking the safety of the travelling public.

1.1.2 Code of conduct

Recommendation

We recommend the Ministry of Transportation implement a process to mitigate the risk of examiners being affiliated with driver training schools or registry agents.

We also recommend the Ministry enhance its code of conduct and require examiners to reconfirm compliance with the code of conduct and conflict-of-interest requirements.

Background

Under the *Alberta Driver Examiner Regulations* (and now the *Driver Training & Examiner Regulation*) examiners are not eligible to hold an examiner's license if they are owners or part owners, directors, partners or employees of, or in a business that is, a driver training school. An applicant cannot hold a driver instructor's license concurrently with an examiner's license. The application form outlines these conflict-of-interest rules and requires applicants to confirm that they are complying with the regulation.

Criteria

- The Ministry should prepare and communicate appropriate conflict-of-interest guidelines to staff and examiners
- The Ministry should have a process to ensure staff and examiners comply with the regulations and conflict-of-interest guidelines

Findings

Our review of the Ministry's process did not identify any integrity issues. We nevertheless noted the following situations that have potential to create integrity problems for the Ministry:

Examiners do not reconfirm compliance

1. The Ministry does not require examiners applying for renewals to periodically reconfirm compliance with the regulations and conflict-of-interest guidelines.

Ministry needs to improve its Code of Conduct

2. The Ministry has developed a basic Code of Conduct for driver examiners under the *Guiding Principles* section of the driver examiner policy and procedures manual. The principles provide a good framework for ensuring appropriate behaviour. However, the guidance should be expanded to include the principles of honesty and integrity. The Ministry should also clarify its expectation for these principles. For example, it should clarify that examiners must not accept gifts.

Ministry needs to manage the risk of individuals obtaining false identification

3. The Ministry does not prohibit examiners from owning or operating registry agencies. The Ministry has identified a significant risk of examiners fraudulently issuing driving licenses and thereby helping individuals obtain false identification. The Ministry uses the registry agents as a check on driver examiners providing false identification by requiring the registry agents to ascertain the residency of drivers. However, this check is ineffective when examiners also own or operate registry agencies. In addition, driver examiners also have access to the Ministry's information systems to modify driver records.

Ministry needs to manage the risk of unqualified drivers obtaining licenses

4. Examiners licensed under the Industrial Certification Program conduct examinations of fellow employees. Also, the Ministry permits examiners to perform examinations for one driver training school only. Therefore, examiners' economic dependence on training schools could force examiners to pass unqualified drivers.

Implications and risks

There is a risk that the Ministry will not identify or prevent unethical practices, which could result in issuing licences to unqualified drivers.

1.2 Conflicts of interest

Background

Last year, we recommended that the Ministry require its employees to disclose annually in writing:

- that they understand and agree to follow the Code of Conduct and Ethics for Public Service of Alberta
- any potential conflicts of interest they may have

We also recommended that the Ministry ensure that consultant contracts contain a conflict-of-interest provision.

Findings

Ministry implemented our recommendation

The Ministry has implemented our recommendation. During the year, the Ministry provided training to managers on matters related to the Code of Conduct. Managers were required to provide the information to their staff.

Employees confirm conflicts of interest

Employees now sign an annual declaration, which states that they have read the Code and agree to be bound by the principles and requirements in it. The training provided to the managers and the annual declaration have resulted in employees notifying the Ministry of conflicts of interest that they may have.

Conflicts of interest clause added to consultant contracts

During the year, the Ministry developed a conflict-of-interest clause, which is included in all contracts with consultants. The clause also states that a breach of the conflict-of-interest terms constitutes grounds for cancellation of the agreement.

2. Financial statement audit

Reservation of opinion

Our auditor's report contains one reservation of opinion resulting from a departure from Canadian generally accepted accounting principles.

Site remediation and reclamation cost not recorded

In accordance with corporate government accounting policies, the Ministry reports the costs of site remediation and reclamation in the period in which the remediation and reclamation work is performed, rather than in the periods in which the liabilities arose. The effect of this departure from generally accepted accounting principles is significant.

3. Specified auditing procedures

One exception noted

We found the following exception when we completed specified auditing procedures on the Ministry's performance measures.

Data for client satisfaction survey not available

There was no data available for one measure, *Client Satisfaction Survey*. Therefore, we were unable apply specified auditing procedures to this measure.

Members of the Legislative Assembly (MLAs) expense reimbursements

MLA expense reimbursements reviewed

In 2002, we examined the system used to produce the Report[1] that provides information on payments to MLAs and the systems used to reimburse MLAs for expenses incurred in their work. We carried out this examination because during the financial statement audit we identified documentation of MLA expense reimbursements as a matter for follow-up.

No evidence of inappropriate payments

We did not find any evidence of inappropriate MLA expense reimbursement and we concluded that the systems in place would generally prevent inappropriate payments.

Improvements can be made

However, improvements can be made in the system that produces the Report and the systems used to reimburse MLA expenses. Therefore, in December 2002, we made four recommendations to the Ministry of Finance, the Legislative Assembly Office (LAO), and the Ministry of Executive Council. The status of all four recommendations is presented below.

1. We recommended that the Ministry of Finance provide all ministries with detailed guidance on the requirements for items to be included in the published Report of payments to MLAs to improve its accuracy.

Recommendation implemented

The Ministry of Finance has implemented this recommendation by substantially improving the guidance provided to ministries on the information needed in the Report.

2. We recommended that Executive Council ensure the rules on documenting support for ministers' expense reimbursements are explicit and understood by ministers and the staff responsible for approving the claims.

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[1] Under the *Legislative Assembly Act* (LAA), the Minister of Finance is required to publish an annual report detailing payments made to Members. Section 37 (4) of the LAA requires the report to include amounts paid by the government as fees and as travelling and living expenses to MLAs appointed to boards, commissions or committees. The report is combined with information required under Section 16 of the *Conflict of Interests Act* to produce the *Report of Selected Payments to Members and Former Members of the Legislative Assembly and Persons Directly Associated with Members of the Legislative Assembly* (the Report). The Ministry of Finance has also included information on remuneration to MLAs in this Report under Section 10(2)(e) of the *Government Accountability Act*. With respect to the Report, our audit was concerned with only a portion of it, specifically expense reimbursement.

Recommendation implemented

The Ministry of Executive Council has implemented this recommendation. Significantly improved guidance was issued recently to ministers and ministry staff on the appropriate supporting documentation required for ministers' expense reimbursements. We will use this revised guidance as a basis for future audits of expense reimbursement.

3. We recommended that the Minister of Finance improve the timeliness of the annual Report of payments to MLAs.

Progress satisfactory

The Ministry of Finance has made satisfactory progress in implementing this recommendation by committing to have a final draft of the Report available earlier for review by MLAs.

Report detailing payments to MLAs must be issued more promptly

To improve the usefulness of the Report, it must be issued in a more timely manner. The 2001-2002 Report was tabled in the Legislature in May 2003, 14 months after the fiscal year end of March 31, 2002. A reasonable target is to table the Report, along with ministry annual reports, about six months after the fiscal year-end. We will follow up to determine if providing the MLAs with the draft Report earlier, results in the report being finalized promptly.

4. We recommended that LAO strengthen its internal control systems for MLA expense reimbursement by:
   - communicating to the Members' Services Committee the need to require appropriate documentation to support claims.
   - performing prompt reasonability checks of MLAs' travel claims.

Rules should be clarified

The Members' Services Committee makes the rules that govern MLA expense reimbursement. While it is the discretion of the Committee to change the rules, LAO can bring forward suggested changes to the rules.

Progress satisfactory

LAO has made satisfactory progress on implementing this recommendation. It updated the guidance provided to MLAs on expenses that should not be reimbursed through LAO. It agreed to review possible improvements in the level of documentation needed for MLA hosting expenses to take to the Member Services Committee for approval. It also commenced a review of a report that compares mileage claims and gasoline purchases.

Clear rules will help public servants fulfill their responsibility

Under the *Financial Administration Act*, each payment needs to be approved by both an expenditure officer and accounting officer. For MLA expenses reimbursed by LAO, a public servant sometimes acts as the expenditure officer and always acts as an accounting officer. Clear rules that specify the appropriate level of supporting expense documentation are necessary so that public servants can verify that expenses are appropriate and can be reimbursed. In this way, they can fulfill their statutory responsibilities as set out in sections 37 and 38 of the Act.

Relationship between person claiming and person approving

Normally, effective internal control requires a more senior employee to approve the expenses of a subordinate. In the case of expense reimbursements to MLAs, this normal relationship does not exist, but LAO's systems are designed to mitigate this situation. Even so, clearer rules will help LAO staff who approve MLA expense reimbursements.

Insufficient expense information

We found that in a number of cases the support for expenses did not provide sufficient information to readily determine if payment was appropriate.

Good systems protect public and MLAs

We consider this matter important because good systems and policies will both prevent inappropriate expense reimbursements and protect MLAs from allegations of improper expense reimbursements. Heightened awareness of public officials' expense reimbursement has re-emphasized the need for good systems and policies. We will continue to follow up on the progress that the Ministry of Finance and LAO make on the third and fourth recommendations.

Offices of the Legislative Assembly

Summary: what we found in our audits

1. **Financial statements**
We audited the financial statements of all the Offices of the Legislative Assembly, except our own. A private sector firm of chartered accountants appointed by the Standing Committee on Legislative Offices audited our financial statements.

We qualified our auditor's report on the Ombudsman's financial statements

Our auditor's reports for all Offices' financial statements, except for the Office of the Ombudsman, contained an unqualified opinion for the year ended March 31, 2003. We qualified our auditor's report for the Ombudsman's financial statements for the year ended March 31, 2003, because they understate capital assets. Since this problem applies to 17 organizations, we discuss it in the Government of Alberta Annual Report chapter of this report—see page 41.

Overview of the Offices of the Legislative Assembly

There are six Offices of the Legislative Assembly. They, and their expenses, are:

	(millions of dollars)
Legislative Assembly Office	31.9
Office of the Auditor General	15.7
Office of the Information and Privacy Commissioner	3.1
Office of the Ombudsman	1.6
Office of the Chief Electoral Officer	1.2
Office of the Ethics Commissioner	0.4

For more detail on the Legislative Assembly Office, visit its website at www.assembly.ab.ca. This website also contains links to the other five Offices of the Legislative Assembly.

Supplementary information

Section 11(b) Audits

Under section 11(b) of the *Auditor General Act*, the Auditor General may, with the approval of the Standing Committee on Legislative Offices, be appointed auditor of organizations other than Provincial departments, funds and agencies. For accounting periods ended within the 2002–2003 fiscal year, the Auditor General acted as auditor of the following organizations:

- Alberta Hospital Edmonton Foundation
- Calgary Health Region
- Carewest
- Capital Health Authority
- Chinook Regional Health Authority
- East Central Regional Health Authority
- Fairview College Foundation
- Grande Prairie Regional College Foundation
- Headwaters Health Authority
- Keeweetinok Lakes Regional Health Authority #15
- Lakeland Regional Health Authority
- Lethbridge Community College Foundation
- Mistahia Regional Health Authority
- Northern Lights Regional Health Authority
- Olds College Foundation
- Peace Regional Health Authority
- PENCE Inc.
- Regional Health Authority 5
- WestView Regional Health Authority
- Universities Academic Pension Plan

	Total numbered recommendations[1]	Fully implemented	Not yet implemented	
			Progress satisfactory	Repeated in this report
1994–1995	28	27	1	-
1996–1997	26	25	-	1
1997–1998	47	40	5	2
1998–1999	28	18	10	-
Issues more than 3 years old			16	3

Recommendations repeated in this report (2002–2003)

Finance
2003 Recommendation No. 2—Corporate government accounting policies (1997—No. 25)

Health and Wellness
2003 Recommendation No. 21—Performance agreements and business plans (1998—No. 26)

Solicitor General
2003 Recommendation No. 40—Contracting of police services (1998—No. 34)

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[1] Excludes repeated recommendations

Results Analysis

March 31, 2003

Mission

"To identify opportunities and propose solutions for the improved use of public resources, and to improve and add credibility to performance reporting, including financial reporting, to Albertans".

Accountable to the members of the Legislative Assembly, the Office of the Auditor General (OAG) is ultimately responsible to the public who require assurance that the government's performance reporting is credible.

The Auditor General is appointed by the Legislative Assembly of Alberta and, pursuant to the Auditor General Act, the Auditor General and the staff of the OAG fulfil the Auditor General's statutory duties.

The purpose of the OAG is to examine and provide independent reporting on government's management of, and accountability practices for, the public resources entrusted to it. Specifically, the Auditor General performs the following duties:

- Reports on the results of his examinations of the entities for which he is the auditor, giving details of any reservation of opinion made in an audit report, and advises the Legislative Assembly on the work of his Office, including whether he received all the information, reports and explanations he required;
- Is accountable to the Public Accounts Committee for matters contained in the Auditor General's Annual Report.
- Assists the Provincial Audit Committee and must give to the Committee any information he considers necessary for understanding the scope and results of the Auditor General's audits of government entities, Provincial agencies and Crown-controlled organizations.
- Trains legislative auditors.

The Auditor General is uniquely positioned to fulfil this mission because both he and his Office:

- are independent of government and can, therefore, offer impartial opinions and recommendations on government operations and management practices;
- possess in-depth knowledge of:
    - complex government structures and systems used to manage public resources,

  - legislative authorities governing reporting organizations,
  - information systems auditing,
  - issues facing government entities in Alberta;

- are familiar with and adhere to accounting and assurance standards recommended by The Canadian Institute of Chartered Accountants;

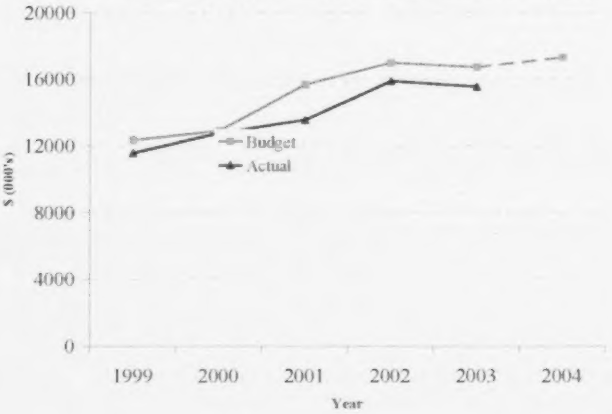
- possess a business perspective that is derived from the ongoing professional training, client interaction, and professional exposure.

Office performance

In comparison to budget

The OAG's primary source of funds available for operations is the annual appropriation by the Legislative Assembly. For 2002–2003, the funding approved was $16,571,000 for operating purposes, and $145,000 for capital purposes. While the Office again returned funds to the Legislative Assembly for the 2002–2003 operating year, the total cost of providing assurance services continues to increase. The Office continues to place a high degree of scrutiny on cost control and effective spending. Figure 1 shows the budgets approved and actual spending for the last 5 years.

Figure 1: Budgets Approved by the Legislative Assembly

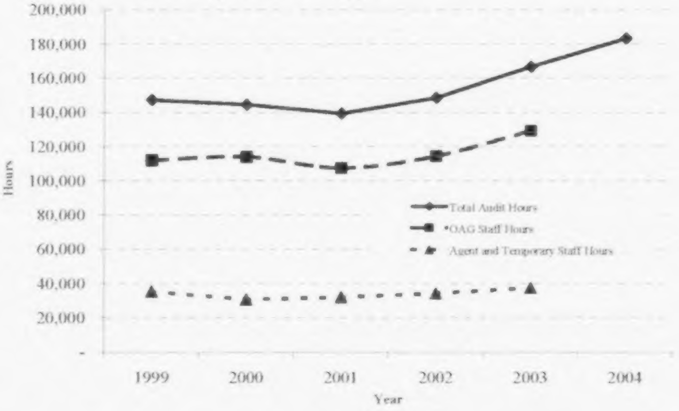


The Office is returning $1,573,000 to the Legislative Assembly for the 2002–2003 fiscal year. This compares to the amount returned in fiscal 2001–2002 of $1,106,000 and the amount returned in 2000–2001 of $2,118,906. Similar to prior years, the variance from budget arises in both personnel, and supplies and service costs.

Operating Variances

Personnel

Figure 2: Hours by Resource Type



Personnel costs continue to approximate 85% of current operating expenses. This is similar to prior years. Our success in recruiting, training and retaining the appropriate staff for our projects reflects directly on our ability to provide effective advice and recommendations to government. At March 31,2003, the current staff complement was 115 full-time equivalent positions. Within the next year, two Assistant Auditors General, 2 Principals and our Human Resource Director will retire and within the next 3 years, six more staff members become eligible to retire. We are dealing with staff changes and the need to properly staff our audit projects through our succession plan. We continue to hire and train accounting students. Through our internal staff development, we are able to address staff changes, both planned and unplanned, and renew our staff complement.

As the need for more specialized skills increases, we will control staff costs by developing internal specialist staff who will be trained in specific areas, such as governance, business planning and forensic auditing. We are also focussing on controlling our agent and temporary staff services costs by developing and better utilizing our internal resources, and matching our resources against risk. Our need to develop a highly skilled and specialized staff complement stems from the increasing complexity of government systems. Not only will we need to perform more audit projects than in the past but also we expect that the time investment in individual audits will increase.

The increased time demands on our staff are reflected in the increase in audit hours over the latest five-year period (see Figure 2): audit hours increased by 15% or 19,600 hours. This increase in audit hours mainly reflects the additional time put in by OAG staff, and, to a much lesser degree, by agents.

Temporary Staff

In the current year, the Office was below its budget for temporary staff by approximately 12% or $164,000. We continue to use temporary staff as necessary to meet work demands during peak times. Since the cost of temporary staff is variable, reflecting current market values, we are continuing our efforts to reduce our reliance on this resource.

Agent and Other Professional Services

The Office also employs agents as a strategy to meet work demands. Since 1980, CA firms have been extensively used to complete audit work. In the past year, 18 public accounting firms in 13 communities across the Province assisted our Office. When using agents, OAG staff continue to oversee the work, but our practice benefits by using these outside resources to meet peak work demands, by employing specialist skills cost-effectively, gaining a point of reference for comparing our methodology and costs, and by saving on travel costs.

In the past year, Agent Professional Services revenue was under budget by 18% or $626,000. Also, the Advisory Services revenue budget was underspent by 74% or $322,000. The aggregate saving of $948,000 resulted from:

- audit efficiencies gained through OAG, agent and client efforts;
- postponement of certain projects due to priority demands;
- greater use of internal resources for completing projects, reducing agent time and costs on projects.

Supplies and Services Expense

In the Supplies and Services category, our Office was under budget by 16% or $417,000. This was primarily the result of:

- Training and development was not taken to the extent planned; this is largely a factor of increased work demands, and their effect upon the available time for formal training.
- Travel expenses were lower than expected due to less out of town training and development, and greater use of local agents to perform audits.

Capital Investment

In fiscal 2002–2003, the OAG re-evaluated its prior year plans to implement certain project management software and decided to acquire less expensive technology. Following this decision, the Office reached an agreement with the original software provider to return the software and recover most of the software cost. The software costs not recovered, and associated implementation costs, have been written off in the amount of $90,008.

The alternate software acquired is believed to be better suited to the size and information needs of our Office. This software, with associated implementation expenses, cost $68,211 resulting in $76,789 of the capital investment budget being unexpended.

By output

Schedule 1 of the Office's financial statements summarizes the output of the OAG. This Schedule is a complement to the Annual Report of the Auditor General. The Annual Report details the work done by the Office, while Schedule 1 quantifies the cost of doing that work. Fiscal 2003 contains the Annual Report released October 2002; as such, all references to recommendations and client information refer to information found in that Annual Report.

Business Plan

2002–2003 performance against objectives

The OAG's strategic objectives are those set out in its 2001–2004 Business Plan. The OAG measures its performance in achieving its objectives throughout its fiscal year as well as annually. For the current and forthcoming years, we have changed some of our performance measures to better reflect our goals and core businesses. The changes made are discussed below.

Discussion of performance

Issuance of reports

The Auditor General's auditor's report on the consolidated financial statements of the Province of Alberta was issued June 24, 2002.

Last year we added targets for the issuance of reports to Departments, funds and consolidated agencies; and also to other organizations. We did not meet targets but are continuing our efforts to improve our clients' administrative processes and are retaining the same targets for the next 3 years.

The targets for the issuance of our reports on performance measures were substantially met or exceeded.

Acceptance of the Auditor General's primary recommendations

We met the Office target for 90% of our primary recommendations to be accepted. Acceptance does not include "accepted in principle" or "under review" which together account for the remaining 10% of the Recommendations made. When the government or a Ministry responds that a Recommendation is "accepted in principle" or "under review," it means the OAG has not been able to convince the client that implementation of the Recommendation should commence. OAG staff always work with clients to determine the most effective ways to implement the Recommendations. In some instances, the Auditor General has acknowledged that a particular Recommendation will be a difficult matter to resolve, and that it will take significant time and efforts on both the part of OAG and the Ministry's staff.

Implementation of the Auditor General's primary recommendations

Ministries often face difficulty in resolving certain issues before changes can be made. Also there may be a shortage of available staff time for non-routine duties. Seventeen issues raised prior to 1999 have not yet been implemented. The Ministries concerned have not rejected these; rather, progress in implementation is slower than originally anticipated. The status of unimplemented recommendations can be found on page 261 of the 2001–2002 Annual Report of the Auditor General.

Release of the Auditor General's Annual Report

As part of the OAG's efforts to improve the timeliness of performance reporting, a measure related to the release of the Auditor General's Annual Report has been added. This measure is relevant to our objective of providing advice in a timely and, therefore, more effective manner.

Audit staff resource utilization

We are now using a measure that tracks time spent on audit, professional development and other specified projects (defined as "core business functions") as a percentage of available staff time. This measure will help us to ensure we are effectively utilizing our internal resources. By knowing whether our internal resources are fully utilized in the manner that meets our goals, we will be better able to fulfill our mandate, and plan and manage our budget and actual expenditures.

Since this measure is new for this fiscal year, a target has not been set, but for future years, staff are expected to be 100% utilized. To assist staff in reaching this target, a new performance management system is being introduced that emphasizes personal accountability for job performance and professional development plans, together with project and annual evaluations.

Planning for resources

This measure compares budget to actual costs for all audit projects and assists in our analysis of audit staff utilization and improves our ability to plan.

Again, a target was not set in 2002–2003 for this measure, as it is new to this year but targets are set for the next 3 years.

Costs by core business

A key corporate strategy for us is to aggressively pursue our target for an increased volume of systems audits. To assist us with this strategy, we track our actual costs consumed by audit assurance and systems audits separately. This measure provides indicators of relative staff resources consumed by each.

Staff satisfaction

We measure the percentage of staff responding "satisfied" or "very satisfied" to the question of overall satisfaction working for the Office. We believe that staff morale reflects the ability of the OAG to communicate expectations, and provide challenging and rewarding opportunities for our staff, and thus on our ability to meet our mandate.

We conduct a staff survey biennially. No target was set for the 2001 survey, but the results have resulted in a new Human Resources Plan for the Office and distinct initiatives aimed at improving the overall working environment for our staff.

Corporate costs

The OAG recognizes the need to ensure sufficient resources are dedicated to human resources, training and development, planning, information technology, finance, and administration. Nonetheless, our primary focus is on the OAG's core businesses of providing assurance services and performing system audits. So, concerted efforts have been made to limit corporate service costs to those items necessary to support these core businesses.

Alberta Legislature

Office of the Auditor General

Management's Responsibility for Financial Reporting

The accompanying financial statements of the Office of the Auditor General are the responsibility of the management of the Office.

The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances in order to ensure that the financial statements are presented fairly in all material respects.

The Office of the Auditor General maintains control systems designed to provide reasonable assurance as to the effectiveness and efficiency of operations, the relevance and reliability of internal and external reporting, and compliance with authorities. The costs of control are balanced against the benefits, including the risks that the control is designed to manage.

The financial statements have been audited by Kingston Ross Pasnak LLP, Chartered Accountants, on behalf of the members of the Legislative Assembly.

[Original signed by Fred J. Dunn, FCA]
Fred J. Dunn, FCA
Auditor General
June 27, 2003

Alberta Legislature

Office of the Auditor General

Financial Statements

March 31, 2003

Auditor's Report

Statement of Financial Position

Statement of Operations

Statement of Cash Flows

Notes to the Financial Statements

Schedule 1: Output Costs by Ministry

Schedule 2: Other Performance Information

KRP LLP
KINGSTON ROSS PASNAK

AUDITORS' REPORT

May 23 2003
Edmonton, Alberta

To the Chair, Standing Committee on Legislative Offices:

We have audited the statement of financial position of the Office of the Auditor General as at March 31, 2003 and the statements of operations and cash flows for the year then ended. These financial statements are the responsibility of the Office's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

[Original signed by Kingston Ross Pasnak LLP]

Kingston Ross Pasnak LLP
Chartered Accountants

Alberta Legislature
Office of the Auditor General
Statement of Financial Position
As at March 31, 2003

	2003	2002
Assets		
Audit fees receivable	$ 981,171	$ 881,165
Other receivables and advances	144,356	51,763
Capital assets (Note 3)	693,985	1,290,014
	$ 1,819,512	$ 2,222,942
Liabilities		
Accounts payable	$ 926,722	$ 1,472,715
Accrued vacation pay	884,079	849,602
Deferred contributions related to capital assets	693,985	1,290,014
	2,504,786	3,612,331
Net Assets (Liabilities)		
Net liabilities at beginning of year	(1,389,389)	(315,017)
Net cost of operations	(12,634,662)	(12,482,841)
Capital and operating contributions	13,190,536	12,538,144
Deferred contributions related to net recoveries (additions) of capital assets	148,241	(1,129,675)
	(685,274)	(1,389,389)
	$ 1,819,512	$ 2,222,942

The accompany notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Operations
Year ended March 31, 2003

	2003		2002
	Budget (Note 5)	Actual	Actual
Expenses:			
Personnel			
Salaries and wages (Note 7)	$ 7,980,000	$ 8,094,840	$ 7,171,292
Agent professional services	3,546,000	2,920,441	3,036,121
Temporary staff services	1,365,000	1,200,963	1,331,474
Employer contributions	1,036,000	1,162,386	993,863
Advisory services	438,000	115,790	242,942
	14,365,000	13,494,420	12,775,692
Supplies and services:			
Amortization of capital assets	442,000	357,780	492,095
Writedown of asset (Note 3)	-	90,008	-
Professional fees, training and development	587,000	394,013	488,842
Office leases	379,000	391,788	369,530
Travel	476,000	282,231	355,831
Computer services	334,000	311,752	335,752
Materials and supplies	184,000	208,127	167,510
Telephone and communications	132,000	82,002	87,705
Miscellaneous	32,000	51,827	45,617
Repairs and maintenance	14,000	12,552	37,104
Rental of office equipment	50,000	30,963	32,405
	2,630,000	2,213,043	2,412,391
Total office professional services	$ 16,995,000	15,707,463	15,188,083
Les Audit fee revenue		(2,209,255)	(1,787,865)
Amortization of deferred contributions related to capital assets		(447,788)	(492,095)
Contribution of services provided at no charge		(415,758)	(425,282)
Net cost of operations for the year		$ 12,634,662	$ 12,482,841

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Statement of Cash Flows
Year ended March 31, 2003

	2003	2002
Operating transactions:		
Net cost of operations	$ (12,634,662)	$ (12,482,841)
Non-cash transactions:		
Amortization and write down of capital assets	447,788	492,095
Amortization of deferred contributions related to capital assets	(447,788)	(492,095)
	(12,634,662)	(12,482,841)
Decrease (increase) in audit fees receivable	(100,006)	229,887
Decrease (increase) in other receivables and advances	(92,593)	20,227
Increase (decrease) in accounts payable	(545,993)	844,912
Increase (decrease) in accrued vacation pay	34,477	(20,654)
Net cash used by operating transactions	(13,338,777)	(11,408,469)
Investing transactions:		
Purchase of capital assets	(68,211)	(1,129,675)
Recovery of software costs previously capitalized (Note 3)	216,452	-
Net cash provided (used) by investing transactions	148,241	(1,129,675)
Financing transactions:		
Net transfer from general revenues	13,190,536	12,538,144
Net cash provided (used)	-	-
Cash, beginning of year	-	-
Cash, end of year	$ -	$ -

The accompanying notes and schedules are part of these financial statements.

Alberta Legislature
Office of the Auditor General
Notes to the Financial Statements
Year Ended March 31, 2003

Note 1: Authority and Purpose

The Auditor General is an officer of the Legislature operating under the authority of the Auditor General Act, Chapter A-46, Revised Statutes of Alberta 2000. General revenues of the Province of Alberta fund the net cost of operations of the Office of the Auditor General. The Standing Committee on Legislative Offices reviews the Office's annual operating and capital budgets.

The Office of the Auditor General exists to serve the Legislative Assembly and the people of Alberta. The Auditor General is the auditor of all government ministries, departments, funds, and Provincial agencies, including universities, public colleges, and technical institutes. With the approval of the Assembly's Select Standing Committee on Legislative Offices, the Auditor General may also be appointed auditor of a Crown controlled corporation or another organization. The results of our work are reported in the Annual Report of the Auditor General presented to the Legislative Assembly. The 2001–2002 Annual Report of the Auditor General was released in the 2003 fiscal year covered by these financial statements.

Note 2: Significant Accounting Policies and Reporting Practices

(a) Audit fees

Audit fee revenue is recognized when billable opinion work is performed. Audit fees are charged to organizations that are funded primarily from sources other than Provincial general revenues.

(b) Output costs

Schedule 1 provides detailed costs for two types of output:

- Assurance Services result in Auditor's Reports on financial statements and on performance measures.
- System Audits are undertaken to produce recommendations for improved government management of and accountability for public resources in the Auditor General's Annual Report to the Legislative Assembly.

(c) Capital assets

Amortization is calculated on a straight-line basis, over the estimated useful lives of the assets, at the following rates:

Computer hardware	33%
Computer software	20%
Office equipment	10%
Leasehold improvements	term of the lease

(d) Deferred contributions related to capital assets

Contributions from general revenues received and expended for the acquisition of capital assets are deferred and amortized to the statement of operations as the capital assets are consumed.

(e) Pension expense

Pension costs included in these statements refer to employer contributions for current service of employees during the year and additional employer contributions for service relating to prior years.

(f) Comparative figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Note 3: Capital Assets

	2003			2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware	$ 1,102,784	$ 873,801	$ 228,983	$ 416,507
Computer software	315,188	212,639	102,549	429,005
Office equipment	719,463	403,572	315,891	392,119
Leasehold improvements	332,514	285,952	46,562	52,383
	$ 2,469,949	$ 1,775,964	$ 693,985	$ 1,290,014

In fiscal 2002–2003, the OAG re-evaluated its prior year plans to implement certain project management software and decided to acquire less expensive technology. Following this decision, the Office reached an agreement with the original software provider to return the software and recover most of the software cost. The software costs not recovered, and associated implementation costs, have been written off in the amount of $90,008.

Note 4 Defined Benefit Plan

The Office participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan. The Office also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $561,786 for the year ended March 31, 2003 (2002: $478,808).

At December 31, 2002, the Management Employees Pension Plan reported a deficiency of $301,968,000 (2001: $5,338,000) and the Public Service Pension Plan reported an actuarial deficiency of $175,528,000 (2001: actuarial surplus $320,487,000). At December 31, 2002, the Supplementary Retirement Plan for Public Service Managers had an actuarial surplus of $6,472,000 (2001: deficiency $399,000).

The Office also participates in a multi-employer Long Term Disability Income Continuance Plan. At March 31, 2003, the Management, Opted Out and Excluded Plan reported an actuarial deficiency of $3,053,000 (2002: $2,656,000). The expense for this Plan is limited to the annual contributions for the year.

Note 5 Lease Commitments

Minimum rental commitments for leased accommodations are as follows:

Fiscal:	
2004	$ 489,725
2005	499,768
2006	503,031
2007	514,659
2008	529,962

Note 6 Budget

The budget shown on the statement of operations is based on the budgeted expenses reviewed by the Standing Committee on Legislative Offices on January 4, 2002.

The following table reconciles the budget shown on the Statement of Operations to the voted budget for operating items, and compares the voted budget to the Office's actual expenditures for both operating and capital items:

Operating expenses:

	2003	2002
Budget shown on Statement of Operations	$ 16,995,000	$ 16,529,000
Less amounts to be paid by government departments	(424,000)	(430,000)
Voted budget	16,571,000	16,099,000
Actual expenses shown on Statement of Operations	15,707,463	15,188,083
Less amounts paid by government departments	(415,758)	(425,282)
Actual expenses for comparison with voted budget	15,291,705	14,762,801
Unexpended	$ 1,279,295	$ 1,336,199

Capital investment:

	2003	2002
Budget presented to Standing Committee	$ 145,000	$ 1,012,000
Less amounts to be paid by government departments	-	(125,000)
Voted budget	145,000	887,000
Actual purchases (net recoveries) of capital assets	(148,241)	1,129,675
Less amounts paid by government departments	-	(12,750)
Actual expenditure (net recovery of expenditure) for comparison with voted budget	(148,241)	1,116,925
Unexpended (overexpended)	$ 293,241	$ (229,925)

Note 7 Salaries and Benefits

Salaries and benefits of the Auditor General and his five Assistants comprise:

	2003		
	Salary(1)	Benefits and Allowances(2)(3)	Total
Auditor General(4)(5)	$ 143,958	$ 48,552	$ 192,510
Assistant Auditor General(6)	131,400	41,026	172,426
Assistant Auditor General(7)	130,500	49,006	179,506
Assistant Auditor General(8)	155,600	42,389	197,989
Assistant Auditor General(9)	152,000	48,234	200,234
Assistant Auditor General(10)	149,700	38,246	187,946
	$ 863,158	$ 267,453	$ 1,130,611

	2002		
	Salary(1)	Benefits and Allowances(2)(3)	Total
Auditor General(4)(5)	$ 140,528	$ 72,727	$ 213,255
Assistant Auditor General(6)	121,230	29,641	150,871
Assistant Auditor General(7)	110,930	38,116	149,046
Assistant Auditor General(8)	134,949	44,594	179,543
Assistant Auditor General(9)	130,709	41,223	171,932
Assistant Auditor General(10)	131,429	48,263	179,692
	$ 769,775	$ 274,564	$ 1,044,339

(1) Salary includes regular base pay, bonuses, and lump sum payments.

(2) Benefits and allowances include the Office's share of all employee benefits, and contributions or payments made on behalf of employees, including pension, health care, dental coverage, group life insurance, short and long-term disability plans, WCB premiums, professional memberships and tuition fees.

(3) Benefits and allowances include vacation payments as follows:

	2003	2002
Auditor General(5)	$ -	$ 36,721
Assistant Auditor General(6)	9,379	4,509
Assistant Auditor General(7)	15,211	9,925
Assistant Auditor General(8)	-	10,878
Assistant Auditor General(9)	10,115	9,724
Assistant Auditor General(10)	-	14,667
	$ 34,705	$ 86,424

(4) Automobile provided, no dollar amount included in benefits and allowances.

(5) New Auditor General appointed June 1, 2002. Comparative figures are for prior Auditor General, who retired January 31, 2002.

(6) Responsibilities – Systems Auditing

(7) Responsibilities – Aboriginal Affairs & Northern Development, Children's Services, Cross Government Issues, Economic Development, Environment, Executive Council, Gaming, Infrastructure, International & Intergovernmental Relations, Legislative Assembly, Sustainable Resource Development, Transportation

(8) Responsibilities – Agriculture, Food & Rural Development, Energy, Finance, Government Services, Human Resources & Employment, Innovation & Science, Justice, Municipal Affairs, Revenue, Seniors, Solicitor General. Served as Acting Auditor General for the period February 1, 2002 through May 31, 2002.

(9) Responsibilities – Professional Practice and Quality Assurance

(10) Responsibilities – Community Development, Health & Wellness, Learning

Note 8 Comparative Figures

Certain 2002 figures have been reclassified to conform to the 2003 presentation.

Schedule 1

Alberta Legislature
Office of the Auditor General
Schedule of Output Costs by Ministry
For the year ended March 31, 2003

	Budget			Actual			2002 Actual		
	Assurance Services	System Audits	Total	Assurance Services	System Audits	Total	Assurance Services	System Audits	Total
Work performed by Sector									
Aboriginal Affairs and Northern Development	$ 79,000	$ 36,000	$ 115,000	$ 94,772	$ 21,015	$ 115,787	$ 28,661	$ 14,904	$ 43,565
Agriculture, Food and Rural Development	435,000	55,000	490,000	396,039	47,062	443,101	416,259	34,916	451,175
Children's Services	924,000	369,000	1,293,000	788,281	309,321	1,097,602	878,300	283,808	1,162,108
Community Development	745,000	39,000	784,000	678,482	8,836	687,318	708,117	11,687	719,804
Cross-Government	389,000	1,051,000	1,440,000	174,082	712,221	886,303	403,426	841,795	1,245,221
Economic Development	89,000	72,000	161,000	73,237	-	73,237	106,885	-	106,885
Energy	465,000	95,000	560,000	315,957	39,414	355,371	334,121	43,388	377,509
Environment	78,000	138,000	216,000	89,585	81,580	171,165	71,643	67,878	139,521
Executive Council	56,000	5,000	61,000	66,947	-	66,947	74,786	47,368	122,154
Finance	1,143,000	213,000	1,356,000	1,444,264	247,617	1,691,881	1,422,390	214,561	1,636,951
Gaming	283,000	243,000	526,000	248,217	40,594	288,811	239,496	169,288	408,784
Government Services	199,000	97,000	296,000	717,431	121,285	838,716	388,704	47,442	436,146
Health and Wellness	1,797,000	1,040,000	2,837,000	1,702,277	293,357	1,995,634	1,772,975	363,894	2,136,869
Human Resources and Employment	438,000	13,000	451,000	478,984	52,946	531,930	430,698	46,037	476,735
Infrastructure	233,000	125,000	358,000	184,512	103,340	287,852	309,758	80,897	390,655
Innovation and Science	271,000	82,000	353,000	441,865	282,832	724,697	243,859	34,345	278,204
International and Intergovernmental Relations	50,000	65,000	115,000	44,473	7,567	52,040	110,300	27,653	137,953
Justice	176,000	101,000	277,000	178,475	31,504	209,979	218,006	57,763	275,769
Learning	2,810,000	598,000	3,408,000	3,055,242	396,041	3,451,283	3,266,292	282,469	3,548,761
Legislative Assembly	101,000	78,000	179,000	82,786	67,163	149,949	150,836	4,901	155,737
Municipal Affairs	217,000	89,000	306,000	210,991	73,992	284,983	241,673	85,540	327,213
Revenue	516,000	41,000	557,000	516,479	31,965	548,444	236,499	10,174	246,673
Seniors	159,000	-	159,000	169,361	40,822	210,183	48,392	-	48,392
Solicitor General	108,000	40,000	148,000	69,283	39,275	108,558	31,839	9,353	41,192
Sustainable Resource Development	161,000	36,000	197,000	185,250	4,130	189,380	171,881	48,557	220,438
Transportation	191,000	161,000	352,000	144,611	101,701	246,312	48,702	4,967	53,669
	$ 12,113,000	$ 4,882,000	$ 16,995,000	$ 12,551,883	$ 3,155,580	$ 15,707,463	$ 12,354,498	$ 2,833,585	$ 15,188,083

Schedule 2

Alberta Legislature
Office of the Auditor General
Other Performance Information

	2001 – 2002 Actual	2002 – 2003 Target	2002 – 2003 Actual
Performance Measure: Issuance of reports			
Consolidated FS	June 20, 2001	June 21, 2002	June 24, 2002
Ministries	N/A	85% by July 15, 2002	54% by July 15, 2002
Departments, funds & consolidated agencies	N/A	85% by July 15, 2002	77% by July 15, 2002
Other organizations	N/A	75% within 120 days of client year end	76% within 120 days of client year end
Measuring up	N/A	June 21, 2002	June 24, 2002
Ministry performance measures	N/A	85% by September 15, 2002	96% by September 15, 2002
Performance Measure: Acceptance of the Auditor General's primary recommendations			
Accepted primary recommendations	78%	90%	90%
Performance Measure: Implementation of the Auditor General's primary recommendations			
Primary recommendations implemented within 3 years of acceptance	13 issues not implemented	All	17 issues not implemented
Performance Measure: Release of the Auditor General's Annual Report			
Release date	October 2001	October 2002	October 2002
Performance Measure: Audit staff resource capacity			
Percentage of available time spent on core business functions	N/A	N/A	83%
Performance Measure: Planning for resources			
Percentage of audit projects completed within budgeted costs	N/A	N/A	65%
Performance Measure: Costs by core business			
Assurance costs as percentage of total audit costs	81%	70%	80%
Systems costs as percentage of total audit costs	19%	30%	20%
Performance Measure: Staff satisfaction			
Percentage of staff responding "satisfied" or "very satisfied" to question of overall satisfaction working for the Office	68%	N/A	N/A
Performance Measure: Corporate costs			
Corporate expenses as a percentage of total expenditures	21%	Less than 25%	23%

Committees and Agents

Standing Committee on Legislative Offices

Reports issued under section 19 of the *Auditor General Act* are tabled in the Legislative Assembly by the Chairman of the Standing Committee on Legislative Offices. Members of the Committee on May 14, 2003, the day the Assembly last adjourned were:

- Janis Tarchuk, Chair
- Laurie Blakeman
- Yvonne Fritz
- Mark Hlady
- Raj Pannu
- Don Tannas
- Denis Ducharme, Deputy Chair
- Gary Friedel
- Marlene Graham
- Mary O'Neill
- Kevin Taft

Public Accounts Committee

The Public Accounts Committee acts on behalf of the Members of the Assembly in examining the government's management and control of public resources. Our *Annual Report* and the ministry annual reports are used by the Committee in its examination of the use and control of public resources. The members are:

- Hugh MacDonald, Chair
- Cindy Ady
- Dave Broda
- Harvey Cenaiko
- Hector Goudreau
- Mary Anne Jablonski
- Richard Marz
- Gary Masyk
- Kevin Taft
- Shiraz Shariff, Deputy Chair
- Laurie Blakeman
- Wayne Cao
- Alana Delong
- Drew Hutton
- Thomas Lukaszuk
- Brian Mason
- Luke Ouellette

Audit Committee

Before being tabled, annual reports are made available to an Audit Committee in accordance with section 24 of the Act. The members of the Audit Committee as at the date of this report, all of whom were appointed by Order in Council, are:

Peter Watson, Chair
Patrick D. Daniel
Franklin L. Kobie
Beverly Wittmack
The Hon. Patricia Nelson
George Cornish
Harry Schaefer

Agents

The Auditor General's Office has continued the policy of utilizing the services of firms of private sector chartered accountants. These firms act as our agent under section 9 of the *Auditor General Act*, and their contributions in supplementing the staff resources of the Auditor General's Office are gratefully acknowledged. Agents acting in respect of the fiscal year ended March 31, 2003, were as follows:

BDO Dunwoody LLP
Clews & Shoemaker
Collins Barrow
Deloitte & Touche LLP
Ernst & Young LLP
Feddema & Company
Grant Thornton LLP
Gregory, Harriman & Associates
Hawkings Epp Dumont LLP
Heywood Holmes & Partners
Hudson & Company LLP
Johnston, Morrison, Hunter & Co. LLP
Joly, McCarthy & Dion
King & Company
KPMG LLP
Meyers Norris Penny LLP
PricewaterhouseCoopers LLP
Tien Rostad LLP
Young Parkyn McNab LLP

The employees of the Office of the Auditor General as of the date of this report, and students who worked over the summer or completed a co-op term, are:

Alishah Janmohamed
Ann Phan
Ann Roberts
Annie Shiu, CHRP
Arlene Sideroff
Audrey Hayward
Barb McEwen, MBA
Barbara Harasimiuk
Bob Ballachay, CMA, CA
Brad Ireland, CA
Brad Weiland, CA
Bruce Laycock, LLB
Burt Koldewey, CMA
Carrie Lorenz, MCP
Cathy Ludwig, CA
Charlotte Barry
Cornell Dover, CA·CICA
Cory Goodale, CMA
Dale Borrmann, CHRP
Dan Balderston, CA
Darlene Orsten, CMA
David Allan, CA
David Birkby, CA
David Luu
Debbie Bryant
Deborah Herron
Debra Bereska
Domenic Gallace, CMA
Donna Banasch, CMA, CA
Donna Chapman
Doug McKenzie, CA
Doug Wylie, CMA
Ed Ryan, CFE
Eric Leonty
Eric Wagner
Fred Dunn, FCA
Graeme Arklie, CA

Harmeet Kaur
Janine Mryglod, CA
Jackie Di Lullo
Jaime McKenzie
Jane Staples, CA
Ian Sneddon, CA
Jeff Dumont, CA
Jeff Sittler, CA
Jim Hug, CA
John Margitich
Karen Chan, CA
Karen Hunder, CA
Karen Schmidt
Karim Pradhan, CA
Kathleen Gora, CA
Kathryn Pringle
Kathy Anderson
Ken Hoffman, CA
Kristi Berlin, CA
Kristy Heard
Levy Castillo
Linette Hawkins
Linus Lau
Lisa Peterson, CHRP
Lori Trudgeon
Loulou Eng, CMA
Marcin Lach
Mary-Jane Dawson, CA
Maryna Kirsten, CA
Merwan Saher, CA
Michael Reinhart, MCP
Michael Sendyk, CA
Michelle Fleming
Mike Stratford, CA
Monica Jeske, CA
Nadia Potochniak, MCP

Nisha Sachedina
Patty Hayes, CA
Pamela Tom, CMA
Patrick Doyle
Pablo Binas
Paul Beck, CA
Rattan Preet Bhullar
Pelma Jore
Rahim Kanji, CA
Ram Rajoo, CA
Phil Minnaar, CA
Robert Drotar, CA
Rupert Cass, CA
Peter Zuidhof, CGA
Roger Elvina
Ronda White, CA
Salima Mawani, CA
Shawn Dineen, MCP
Sherry Armstrong, CA
Stephen Johnson
Stu Orr
Sukh Johal, CA
Sunil Khurana
Tabreez Lila, CA
Tamara Loewen
Tammy Lunz, CMA
Tara Poole
Teresa Wong, CA
Theresa Politylo
Thomas Wong, CA
Tim Lamb, CA
Tina Hanson
Todd Wellington, CGA
Verde Pineda
Vivek Dharap, CA·CICA
Yien-Wyn Yip

Students

Arne Kang
Chris Williams
Crystal Roschker
Darrell Pidner
Irazu Lugo
Jeff Urbanowski
Johnathan Lee
Judyanna Yu
Laura Durrance
Nathan Hoag
Patty Glasgow
Robert Horne
Tracey Freeman
Shirley Yap
Susan Nguyen
Violet En

Auditor General Act

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HER MAJESTY, by and with the advice and consent of the Legislative Assembly of Alberta, enacts as follows:

Auditor General as auditor

11 The Auditor General

(a) is the auditor of every ministry, department, regulated fund and Provincial agency, and

(b) may with the approval of the Select Standing Committee be appointed by a Crown-controlled organization or any other organization or body as the auditor of that Crown-controlled organization or other organization or body.

RSA 1980 cA-49 s12;1995 cG-5.5 s17; 2003 c2 s1(23)

Access to information

14(1) The Auditor General is at all reasonable times and for any purpose related to the exercise or performance of the Auditor General's powers and duties under this or any other Act entitled to access to the records of, and electronic data processing equipment owned or leased by

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(2) The following persons shall give to the Auditor General any information, records or explanations that the Auditor General considers necessary to enable the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act:

(a) present or former public employees, public officials or personal service contractors;

(b) present or former employees, officers, directors or agents of a Crown-controlled organization or other organization or body of which the Auditor General is the auditor.

(3) The Auditor General may station any employee of the Office of the Auditor General in the offices of

(a) a department, fund administrator or Provincial agency, or

(b) a Crown-controlled organization or other organization or body of which the Auditor General is the auditor,

for the purpose of enabling the Auditor General to exercise or perform the Auditor General's powers and duties under this or any other Act more effectively, and the department, fund administrator, Provincial agency, Crown-controlled organization or other organization or body shall provide the necessary office accommodation for an employee so stationed.

(4) The Auditor General or an employee of the Office of the Auditor General who receives information from a person whose right to disclose that information is restricted by law, holds that information under the same restrictions respecting disclosure as governed the person from whom the information was obtained.

RSA 1980 cA-49 s15; 2003 c15 s5

Evidence under oath

14.1(1) In conducting an audit or examination or performing any other duty or function under this or any other Act, the Auditor General may by a notice require any person

(a) to attend before the Auditor General to give evidence under oath with respect to any matter related to the audit, examination or other duty or function, and

(b) to produce any records respecting the matter referred to in the notice.

(2) If a person fails or refuses to comply with a notice under subsection (1), the Court of Queen's Bench, on the application of the Auditor General, may issue a bench warrant requiring the person to attend before the Auditor General in compliance with the notice.

(3) If a witness refuses

(a) to give evidence in compliance with a notice under subsection (1),

(b) to answer any questions before the Auditor General pursuant to the notice, or

(c) to produce any records referred to in the notice.

the Court of Queen's Bench, on the application of the Auditor General, may commit the witness for contempt.

(4) A person who is given a notice under subsection (1) shall not be excused from giving evidence or from producing records on the ground that the evidence or records might tend to incriminate the person or subject the person to a penalty or forfeiture.

(5) A witness who gives evidence or produces records pursuant to subsection (1) has the right not to have any incriminating evidence so given used to incriminate that witness in any other proceedings, except in a prosecution for or proceedings in respect of perjury or the giving of contradictory evidence.

2003 c15 s6

Reliance on auditor

16(1) In this section, "regional authority" means a board under the *School Act* or a regional health authority, subsidiary health corporation, community health council or provincial health board under the *Regional Health Authorities Act*.

(2) If the Auditor General is not the auditor of a regional authority, the person appointed as auditor

(a) must give the Auditor General, as soon as practicable after completing the audit of the regional authority, a copy of the person's findings and recommendations and a copy of the audited financial statements and all other audited information respecting the regional authority,

(b) may conduct such additional work at the direction and expense of the Auditor General as the Auditor General considers necessary, and

(c) must co-operate with the Auditor General when the Auditor General performs work for a report to the Legislative Assembly under section 19.

(3) A regional authority must give a person appointed as auditor of the regional authority any information the person requires for the purposes of subsection (2).

(4) If the Auditor General is not the auditor of a regional authority, the Auditor General may rely on the report and work of the person appointed as auditor.

1995 cG-5.5 s17

Special duties of Auditor General

17(1) The Auditor General shall perform such special duties as may be specified by the Assembly.

(2) The Auditor General shall perform such special duties as may be specified by the Executive Council, but only if those special duties do not conflict with or impair the exercise or performance of any of the Auditor General's powers and duties under this or any other Act.

(3) The Auditor General shall present any report prepared by the Auditor General under subsection (1) to the chair of the Select Standing Committee, who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(4) The Auditor General shall present any report prepared by the Auditor General under subsection (2) to the President of the Executive Council and afterwards the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(5) After the Speaker has distributed copies of the report under subsection (4), the Auditor General may make the report public.

(6) Despite subsection (4), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (4) to the Clerk of the Assembly, who shall comply with subsection (4) as if the Clerk were the Speaker.

RSA 1980 cA-49 s17; 2003 c15 s7

Annual report on financial statements

18(1) After the end of each fiscal year of the Crown, the Auditor General shall report to the Assembly on the financial statements of the Crown for that fiscal year.

(2) A report of the Auditor General under subsection (1) shall

(a) include a statement as to whether, in the Auditor General's opinion, the financial statements present fairly the financial position, results of operations and changes in financial position of the Crown in accordance with the disclosed accounting principles,

(b) when the report contains a reservation of opinion by the Auditor General, state the Auditor General's reasons for that reservation and indicate the effect of any deficiency on the financial statements, and

(c) include any other comments related to the Auditor General's audit of the financial statements that the Auditor General considers appropriate.

RSA 1980 cA-49 s18;1995 c23 s3

Annual report of Auditor General

19(1) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly

(a) on the work of the Office of the Auditor General, and

(b) on whether, in carrying on the work of that Office, the Auditor General received all the information, reports and explanations the Auditor General required.

(2) A report of the Auditor General under subsection (1) shall include the results of the Auditor General's examinations of the organizations of which the Auditor General is the auditor, giving details of any reservation of opinion made in an audit report, and shall call attention to every case in which the Auditor General has observed that

(a) collections of public money

  (i) have not been effected as required under the various Acts and regulations, directives or orders under those Acts,

  (ii) have not been fully accounted for, or

  (iii) have not been properly reflected in the accounts,

(b) disbursements of public money

  (i) have not been made in accordance with the authority of a supply vote or relevant Act,

  (ii) have not complied with regulations, directives or orders applicable to those disbursements, or

  (iii) have not been properly reflected in the accounts,

(c) assets acquired, administered or otherwise held have not been adequately safeguarded or accounted for,

(d) accounting systems and management control systems, including those systems designed to ensure economy and efficiency, that relate to revenue, disbursements, the preservation or use of assets or the determination of liabilities were not in existence, were inadequate or had not been complied with, or

(e) when appropriate and reasonable procedures could have been used to measure and report on the effectiveness of programs, those procedures were either not established or not being complied with,

and shall call attention to any other case that the Auditor General considers should be brought to the notice of the Assembly.

(3) In a report under subsection (1), the Auditor General may

(a) comment on the financial statements of the Crown, Provincial agencies, Crown-controlled organizations or any other organization or body of which the Auditor General is the auditor on any matter contained in them and on

(i) the accounting policies employed, and

(ii) whether the substance of any significant underlying financial matter that has come to the Auditor General's attention is adequately disclosed.

(b) include summarized information and the financial statements of an organization on which the Auditor General is reporting or summaries of those financial statements, and

(c) comment on the suitability of the form of the estimates as a basis for controlling disbursements for the fiscal year under review.

(4) After the end of a fiscal year of the Crown, the Auditor General shall report to the Legislative Assembly on the results of the examinations of the regional authorities referred to in section 16.

(5) A report under this section shall be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

(6) The Auditor General need not report on deficiencies in systems or procedures otherwise subject to report under subsection (2)(d) or (e) which, in the Auditor General's opinion, have been or are being rectified.

RSA 1980 cA-49 s19;1995 cG-5.5 s17;1996 cA-27.01 s22

Special reports

20(1) The Auditor General may prepare a special report to the Assembly on any matter of importance or urgency that, in the Auditor General's opinion, should not be deferred until the presentation of the Auditor General's annual report under section 19.

(2) A report under this section must be presented by the Auditor General to the chair of the Select Standing Committee who shall lay the report before the Assembly forthwith if it is then sitting or, if it is not sitting, within 15 days after the commencement of the next sitting.

RSA 1980 cA-49 s20

Assembly not sitting

20.1(1) When the Assembly is not sitting and the Auditor General considers it important that a report presented to the chair of the Select Standing Committee under section 17(3), 19(5) or 20(2) be made available to the Members of the Assembly and to the public, the Auditor General may, on 3 days' notice to the Speaker of the Assembly, deliver copies of the report to the Speaker, who shall forthwith distribute the copies to the office of each Member of the Assembly.

(2) After the Speaker has distributed copies of the report under subsection (1), the Auditor General may make the report public.

(3) Despite subsection (1), if there is no Speaker or if the Speaker is absent from Alberta, the Auditor General may give the notice under subsection (1) to the Clerk of the Assembly, who shall comply with subsection (1) as if the Clerk were the Speaker.

(4) Nothing in this section dispenses with the requirement of the chair of the Select Standing Committee to lay a report before the Assembly pursuant to section 17(3), 19(5) or 20(2).

2003 c15 s8

Report after examination

28 The Auditor General shall as soon as practicable advise the appropriate officers or employees of a department, Provincial agency or Crown-controlled organization of any matter discovered in the Auditor General's examinations that, in the opinion of the Auditor General, is material to the operation of the department, Provincial agency or Crown-controlled organization, and shall as soon as practicable advise the Minister of Finance of any of those matters that, in the opinion of the Auditor General, are material to the exercise or performance of the Minister of Finance's powers and duties.

RSA 1980 cA-49 s28; 2003 c15 s9

Advice on organization, systems, etc.

29 The Auditor General may, at the request of a department, Provincial agency or Crown-controlled organization or any other organization or body of which the Auditor General is the auditor, provide advice relating to the organization, systems and proposed course of action of the department, Provincial agency or Crown-controlled or other organization or body.

RSA 1980 cA-49 s29

Reference

Glossary

This glossary explains key accounting terms and concepts in this report.

Accountability	Responsibility for the consequences of actions. In this report, *accountability* requires ministries, departments and other entities to: • report their results (what they spent and what they achieved) and compare them to their goals • explain any differences between their goals and results Government accountability allows Albertans to decide whether the government is doing a good job. They can compare the costs and benefits of government action: what it spends, what it tries to do (goals), and what it actually does (results).
Accountability system	A system designed to ensure that the government is accountable for how it spends public money. The system requires the government to: 1. set measurable goals and responsibilities 2. plan the work to achieve the goals 3. do the work and monitor progress 4. report on results 5. evaluate results and provide feedback to refine or adjust plans
Accrual basis of accounting	A way of recording financial transactions that puts revenues and expenses in the period when they are earned and incurred.
Adverse auditor's opinion	An auditor's opinion that financial statements are not presented fairly and are not reliable.
Amortize	To reduce an amount of money to zero over a certain time.
Assurance	An auditor's written conclusion about something audited. Absolute assurance is impossible because of several factors, including the nature of judgment and testing, the inherent limitations of control, and the fact that much of the evidence available to an auditor is only persuasive, not conclusive.
Attest work, attest audit	Work an auditor does to express an opinion on the reliability of financial statements.
Audit	An auditor's examination and verification of evidence to determine the reliability of financial information, to evaluate compliance with laws, or to report on the adequacy of management systems, controls and practices.
Auditor	A person who examines systems and financial information.
Auditor's opinion	An auditor's written opinion on whether things audited meet the criteria that apply to them.
Auditor's report	An auditor's written communication on the results of an audit.
Capital asset	A long-term asset.
Capitalize	To charge an expense to a capital asset account rather than an expense account.

Capital planning	A process to: • identify the short- and long-term capital assets needed to carry out core businesses • rank capital projects • prepare business cases to support capital projects • determine the cost and method of financing capital projects
COBIT	Abbreviation for "Control Objectives for Information and Related Technology". COBIT was developed by the Information Systems Audit and Control Foundation and the IT Governance Institute. COBIT provides good practices for managing IT processes to meet the needs of enterprise management. It bridges the gaps between business risks, technical issues, control needs, and performance measurement requirements.
Core business	The essential thing that a ministry does.
Corporate government accounting policy	An accounting policy that the Ministry of Finance requires ministries and departments to use in preparing their financial statements. Accounting policies include both the specific accounting principles an organization uses and the ways it applies the principles.
Criteria	Reasonable and attainable standards of performance that auditors use to assess systems.
Cross-ministry	The section of this report covering systems and problems that affect several ministries or the whole government.
Deferred maintenance	Any maintenance work not performed when it should be. Maintenance work should be performed when necessary to ensure capital assets provide acceptable service over their expected lives.
Disclosed basis of accounting	Principles of accounting that differ from generally accepted accounting principles (GAAP); organizations use a disclosed basis of accounting whey they think that GAAP is not appropriate – when they do so, they identify (or disclose) that fact in their report.
Exception	Something that does not meet the criteria it should meet—see "Auditor's opinion".
Expense	The cost of a thing over a specific time.
GAAP	Abbreviation for "generally accepted accounting principles", which are established by the Canadian Institute of Chartered Accountants.
Governance	A process and structure that brings together capable people and relevant information to achieve goals. Governance defines an organization's accountability systems and ensures the effective use of public resources.
IMAGIS	Abbreviation for the government's Integrated Management Information System – a customized version of *PeopleSoft*. It is the main computer program that ministries use for financial and human resource information systems.
Internal audit	A group of auditors within a ministry (or an organization) that assesses and reports on the adequacy of the ministry's internal controls. The group reports its findings directly to the deputy minister. Internal auditors need an unrestricted scope to examine business strategies; internal control systems; compliance with policies, procedures, and legislation; economical and efficient use of resources; and the effectiveness of operations.

Internal control	A system designed to provide reasonable assurance that an organization will achieve its goals. Management is responsible for an effective internal control system in an organization, and the organization's governing body should ensure that the control system operates as intended. A control system is effective when the governing body and management have reasonable assurance that: • they understand the effectiveness and efficiency of operations • internal and external reporting is reliable • the organization is complying with laws, regulations, and internal policies
Material, materiality	Something important to decision-makers.
Misstatement	A misrepresentation of financial information due to mistake, fraud, or other irregularities.
Net realizable value	Estimated selling price in the ordinary course of business minus estimated costs of completion and sale.
Outcomes	The results an organization tries to achieve based on its goals.
Outputs	The goods and services an organization actually delivers to achieve outcomes. They show "how much" or "how many".
Performance measure	Indicator of progress in achieving a goal.
Performance target	The desired level for a performance measure.
Public sector accounting standards	Accounting principles, similar to GAAP, which apply to the public sector; established by the Public Sector Accounting Board.
Qualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them, except for one or more specific areas – which cause the qualification.
Recommendation	A solution we—the Office of the Auditor General of Alberta—propose to improve the use of public resources or to improve performance reporting to Albertans.
Reservation of opinion	A generic term for an adverse auditor's opinion or a qualified auditor's opinion.
Risk	Anything that impairs an organization's ability to achieve its goals.
Risk management	Identifying and then minimizing or eliminating risk and its effects.
Section 5900	Section 5900 of the Handbook of the Canadian Institute of Chartered Accountants identifies what an auditor should consider before expressing an opinion on the design, existence, effective operation, and continuity of control procedures at a service organization. Section 5900 is not specific to service providers of information technology. It does not list specific criteria and principles an auditor must verify. Accordingly, the scope of an auditor's review under section 5900 will vary, depending on which control objectives and procedures a service organization asks the auditor to review.
Specified auditing procedures	Actions an auditor performs to check certain qualities, such as reliability, of reported information that management asks the auditor to check. Specified auditing procedures are not extensive enough to allow the auditor to express an opinion on the information.
Systems (management)	A set of interrelated management control processes designed to achieve goals economically and efficiently.

Systems (accounting)	A set of interrelated accounting control processes for revenue, spending, the preservation or use of assets, and the determination of liabilities.
Systems audit	An audit of a specific part of a ministry (or an organization) to determine if accounting and management systems exist and are adequate, and whether staff follow them.
SysTrust, SysTrust review	An assurance standard for assessing the reliability of an information system. SysTrust guidance includes five essential principles: security, availability, processing integrity, online privacy, and confidentiality. It identifies specific criteria for each principle. The Canadian Institute of Chartered Accountants and the American Institute of Certified Public Accountants jointly developed SysTrust.
Unqualified auditor's opinion	An auditor's opinion that things audited meet the criteria that apply to them.

Other resources

The Canadian Institute of Chartered Accountants (CICA) produces a useful book called, *Terminology for Accountants*. They can be contacted at CICA, 277 Wellington Street West, Toronto, Ontario, Canada M5V 3H2 or www.cica.ca.

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